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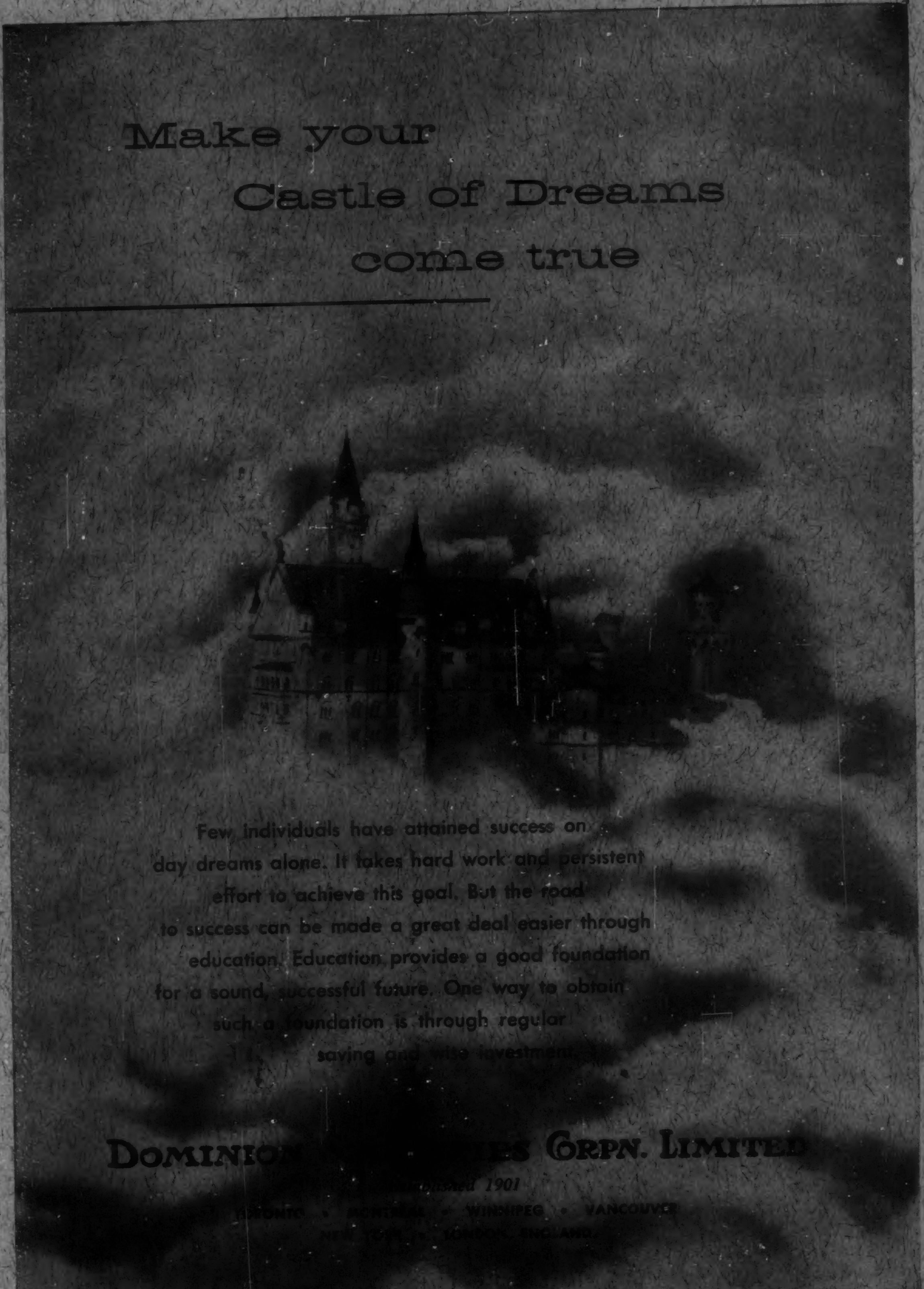
The Business Quarterly

SPRING 1959 | VOLUME XXIV NUMBER 1

Price $1.50

published by The School of Business Administration

UNIVERSITY OF WESTERN ONTARIO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THE

BUSINESS QUARTERLY

VOLUME XXIV NUMBER 1 SPRING 1959

Published by—
The School of Business Administration,
University of Western Ontario,
London, Canada.

The views and opinions herein expressed are those of the several authors and do not represent an official opinion of *The Business Quarterly* or the University of Western Ontario.

Manuscripts and correspondence concerning articles should be addressed to the Editor.

A consolidated index of subjects and authors was published for the first 20 volumes in Vol XX, No. 4. The contents are currently indexed by the Canadian Index, Ottawa, the Public Affairs Information Service, New York, and "Management's Documentation Review", Documation Inc., Woodbury, N.J.

Subscriptions — Single copy, $1.50; One year, $5.00; Three years, $9.50.

Advertising Rates — Furnished by the Business Manager upon request.

All correspondence concerning subscriptions and advertising should be addressed to:

The Business Quarterly,
School of Business Administration
University of Western Ontario,
London, Canada.

Printed by—
Hunter Printing London Limited,
125 Elm Street, London, Canada

Authorized as second class mail, Post Office Department, Ottawa, Canada

A Matter of Opinion

We are well into the first step of the second industrial revolution; science and technology have begun to gather the momentum that will fling us into a new world. Whether this coming age will be one in which the human race rises to new heights of accomplishment or dashes itself to destruction is the subject of much discussion and prognostication. The most important aspect of this revolution is that it is world-wide. Peoples all over the globe who have been economically depressed and imperially oppressed are linking this revolution with a national renaissance, the zeal of which has not been matched since the religious crusades.

An overwhelming majority of the world's population, formerly our economically poor, are bent upon becoming our economic equals if not our masters. The Soviet Union's productivity is increasing at a rate of four to five times our own. China has taken one "great leap" forward. One more such leap and the Chinese will be the third economic power on this globe. These peoples have proved that they can pull themselves up almost literally by their own bootstraps by setting realistic goals and plans. They are shining examples to all other under-developed countries, who will inevitably try to emulate them.

It would be entirely wrong for us to regard the progress of these peoples as anything but desirable and right, or that the western nations have any monopoly on intelligence or ability. Unfortunately, many people who decide our national and international policies appear to look upon this development in a negative way. There is much wringing of hands and gnashing of teeth—we lack the poise that comes from long, cool, generous thought. We must learn to put things in proper perspective and get long-range planning underway before we drift into situations in which we will be at the mercy of circumstances. Unless we begin to be the teachers in this new revolution we will be made the pupils. We can easily quicken our economic and technological progress, but to what end? If our goals are not all-encompassing in their vision, our plans cannot hope to be useful. Some of our presently-held ideas about our institutions, rights, freedoms and way of life which make up our "conventional wisdom" deserve a careful second look. We must begin to set our house in order if we are to be masters there for long.

Canadian businessmen are in the centre of our economic life and are in an ideal position to begin this process of planning in the free world. A great deal of power rests in their hands. They must begin to wield this power constructively, something which they have not yet done, by and large. In their hands lies much of the responsibility for the future well-being of the world.

—Neil M. Armstrong

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Mr. H. A. MacDonald
Vice-President
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H. A. MacDonald.

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Ottawa Newsletter

Patrick Nicholson

Our federal government is Canada's largest employer of labour; and it is unmatched by any other business in that its goods and services absorb about one-sixth of the income of the average family.

By such yardsticks, we must recognize the business of governing Canada as Big Business. But it is without doubt unmatched among Canadian businesses in being the only one which is conducted entirely by an untrained and inexperienced board of directors. For when our new Conservative Government was created by the wish of a majority of the voters in June 1957, the new Board of Directors—more succinctly known by the collective noun "Cabinet"—did not contain one person with any previous experience of directing or even of working for that business.

A businessman might express surprise that Canada's largest business two years later is nevertheless not merely still very effectively in business and with credit unimpaired, but has even substantially enhanced its reputation among the shareholders, or taxpayers.

This raises two interesting questions. What are the exact functions of a director of Canada Unlimited? And, what are the qualities required for success as such a director?

A Cabinet Minister is a combination of a departmental administrator and a practising politician and political organizer. He can perhaps for many months or even years get away with an almost complete lack of administrative ability, if he is fortunate enough to have an able and loyal staff of senior civil servants; but naturally his Department will not forge ahead under these conditions. Apart from a very few classic cases of individuals who have been appointed to Cabinet rank because of their fortuitous domicile, and one little-known case of mistaken identity, our history is not rich in Ministers whose ambition was not backed up by outstanding political ability and activity.

Is business experience valuable, even if not essential, to a Cabinet Minister? Let Trade Minister Hon. Gordon Churchill, himself a teacher-turned-lawyer-turned-successful politician, answer that:

"The businessman as I have known him is impatient of our democratic parliamentary procedure. It goes against his grain to talk first, rather than to act quickly. But he has a lot of good commonsense to contribute to departmental administration. I doubt if the Parliament of Canada has very many shining examples of good businessmen turning out to be good parliamentarians."

The classic example of Mr. Churchill's well-founded doubt is his Liberal predecessor as Trade Minister, Right Hon. C. D. Howe. Here was a university lecturer turned businessman, who had achieved better than average success as measured by dollars and cents. On his record, he was appointed to the Cabinet before he had actually taken his seat in Parliament. He showed himself to be as ready to shoulder departmental work as he was anxious for power, which he progressively wielded in a dictatorial rather than a democratic fashion.

In the exceptional conditions of wartime, when the delays and wastes of our democratic safeguards have to be abrogated along with many of the liberties of the individual, Mr. Howe's business methods were successfully applied to the commercial aspects of government. Similarly another Canadian, Lord Beaverbrook, co-opted by Prime Minister Winston Churchill to be his Minister of Aircraft Production, ruthlessly used business methods to slash the enmeshing bureaucratic red tape—and thus was able in a moment of crisis to expedite contracts to hustle enough aircraft into squadron use to win the Battle of Britain, which would otherwise have been lost in civil servants' brief-cases.

But Mr. Howe's success in wartime bred in him the parliamentary insolence which democracy detests in peacetime. He stumbled over the Emergency Powers Bill; he crashed over his unnecessary demand for action without debate on the pipeline issue. Just as he had played a big part in building up the reputation of the Liberal Government, so his businessman's mentality played an equally prominent part in destroying it.

Our present Cabinet contains the usual high proportion of lawyers. It contains only seven members who have in any sense been engaged in the world of commerce—none with outstanding success. Yet the

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Washington Newsletter

J. M. Minifie

Some economists and political scientists are wondering whether Mussolini's vision of the Corporate State will not materialize in the United States.

The Ministry of Corporation was the keystone of the reorganization of the Italian State in the interbellum era. There, representatives of industry and labour were supposed to accommodate their differences in the best interests not only of each other, but of Italy as well. It was Mussolini's answer to the problems created by the conflicting demands and overwhelming power of industry and labour in the modern state. It died with him.

Or did it? President Eisenhower recently inveighed against the inflationary spiral created by the regular succession of wage and price increases in giant industries which dominate the American economy. It is becoming apparent that neither big labour nor big industry has any intention of reforming. When labour extracts another round of wage increases from Big Steel or Big Auto, it does so in the sure knowledge that industry will pass the increase on to the public plus a substantial profit of its own. Industrial bookkeeping being what it is, Big Steel and Big Auto can, and do, raise their prices on the excuse that they merely cover the wage increase, and repeated Congressional investigatory bodies have failed to establish the degree to which additional profits are hidden in this hike.

The consumer pays — particularly the consumer in small business, the Civil Service, and those industries and professions which are not geared to the cost of living. Above all, people who have retired on fixed incomes derived, for safety, primarily from bonds, or on pensions, are bitterly squeezed. They have no recourse. Their cries for aid have evoked only platonic response from the White House.

The pragmatists on Capitol Hill are considering something more solid. The outlines of a new politico-economic structure, vague and uncertain to be sure, but packed with significance for the future, are beginning to take shape. Senator Kefauver proposes a Department for Consumers. He does not spell this out, but he is known to feel that this agency should review in advance key wage and price increases. He prefers a new agency rather than existing bodies for he considers that this would ensure that the general public rather than just special interests would have an advocate. The New Deal set up regulatory bodies to protect the public interest—the Federal Power Commission, the Federal Trade Commission, the Federal Communications Commission and the rest. But their findings in the past decade have generally been more concerned to ensure that corporations should be able to pay a goodly and godly 5% to shield the consumer from another bout of higher prices.

Sen. Joseph C. O'Mahoney has introduced a bill requiring advance notice and public review of important price increases. It would cover all corporations with a net worth of ten million or more, engaged in any industry where eight firms or fewer account for more than half the industry's yearly sales. The review would be conducted by an existing body, the Federal Trade Commission, which could not prevent a price boost, but would examine the reasons for it and leave the corrective to public pressure.

Two more Democrats have introduced a bill which would require the President's Council of Economic Advisers to hold public hearings and make recommendations on planned wage and price increases "which appear seriously to threaten economic stability".

Such inquiries might reveal a sophisticated collaboration between big business and big unions which would indicate that this free enterprise economy is rapidly becoming a closed preserve of corporate syndicalism.

About Our Authors

George Cretzianu was born in Bucharest (Rumania) and graduated in law and economics at the Jassy University of Rumania. In 1920 he joined the Banca Romaneasca and became General Manager in 1938, a position he held until 1947 when the bank was closed by the Communist regime. He entered Canada as an immigrant in 1948, and six years later became a Canadian citizen. At present he is in charge of research at Greenshields & Co Ltd., Montreal, where he is a vice-president.

G. L. Reuber, B.A., A.M., Ph.D., attended Western, Harvard and Cambridge Universities. He was employed for several years as a Civil Servant at Ottawa and is at present with the Department of Economics and Political Science, U.W.O. He did his doctoral work in the field encompassed by this article—Canadian-U.S. economic relations.

Clare Fraser is well known to readers of the *Business Quarterly* as a contributor on the subject of human and organization growth. A graduate of McGill University, he has been a part-time member of the University of Western Ontario Business School faculty 1944-1946; a member of the Management Training Course faculty 1948-49; member of the Management Training Course advisory committee since its inception; adviser to student groups for business careers. In his present business activities he has staff responsibility for the manning and development of people for the Plant Department, Toronto Area, Bell Telephone Co. of Canada, which includes 500 managers. He is also engaged in occasional counselling services with leadership people, in the field of cultivating human and organization growth, through the Clare Fraser Institute.

continued on next page

About Our Authors cont.

William Lazer, Ph.D., has written for various business journals including the *Journal of Marketing*, and is also the co-author of the book entitled, *Managerial Marketing: Perspectives and Viewpoints.* He is currently Associate Professor of Business Administration at the Michigan State University.

Samuel A. Martin received his C.A. from the Manitoba Institute in 1955 and his M.B.A. from Harvard Business School in 1958. He presently teaches Financial Accounting at the School of Business Administration, University of Western Ontario and is also engaged in management consulting work. For five years he was a practising Chartered Accountant with Deloitte, Plender, Haskins & Sells and then spent a year in the Management Consulting Division of Haskins & Sells in New York and Chicago.

The views of students from three different campuses assisted **Louis Hollander** in writing the article on Company Recruiting Practices. He received his B.Eng. (Chem.) at McGill University in 1956 and spent one year 1956-57 at the University of Toronto (Night School) studying for his M.Comm. in Business Administration. At present he is completing his work for his M.B.A. at the University of Western Ontario. From 1956 to 1958 he was employed by C.I.L. in the Paints Research Laboratory (Toronto) and then in the Development Department — Commercial Studies Section (Montreal).

Mary Orde is a former secretary and contributor to the *Business Quarterly.* Prior to coming to Canada in 1957, she was secretary to the secretary-general of the Arts Council of Great Britain and for seven years a journalist in Oxford, Nottingham and other cities in England.

New Tools for Security Analysis

Security analysis has become increasingly scientific in recent years. Today's professional analyst utilizes advanced techniques of forecasting, statistics and mathematics to aid him in his job. The following article describes some of the more recent developments in this field. The author is well known as research director and vice-president of Greenshields and Co Ltd., Montreal.

George Cretzianu

In the past 30 years the study of securities has progressed from mere statistics to scientific research. Contributing to this development have been the demands of a rising number of sophisticated investors interested in long term gains rather than in quick trading profits. Another factor is the part now played by institutional buying in the stock market. Controlling an estimated one-third of all the marketable common shares of American business, institutional investors are increasingly drawing on the research facilities of investment dealers, but they are also maintaining large research staffs of their own. Most important for the progress of security analysis have been the new tools and the wealth of economic and corporate information which the security analyst now has at his disposal.

One aspect of the improvement in corporate reporting is that stocks are no longer judged on the yardstick of book value but on that of earning power. That the reverse was sometimes the case in the past was due to the fact that book value was often the only tangible factor on which the analyst could put his finger. With the better information now available the analyst is able to estimate the value placed by the market on a company's operation, a more significant figure than that of book value. Since operating capacities are generally known, it is now possible to establish interesting comparisons between stocks in the same industry on the basis of market valuation per unit of capacity. In the oil and mining industries, where book values are especially meaningless, one now compares stocks on the basis of barrels of oil reserves per share or on the basis of metal content of ore treated annually per share.

CASH FLOW CONCEPT

Moreover, the detailed figures of depreciation, taxes and other deductions from operating profit now being published have provided a new basis for stock analysis. In this respect, it may be noted that a relatively new notion, that of cash flow, is now part of the statistician's vocabulary. Cash flow is arrived at by adding back to net profit depreciation and other non-cash charges, such as for instance tax equalization reserves. These non-cash charges have shown considerable increase in the period of remarkable plant expansion witnessed on this continent since the war. Depreciation policies have generally become more conservative; this is emphasized by the fact that while in the years 1950 to 1952 depreciation charges by Canadian corporations represented less than 60% of net profit, they were as high as net profit in 1957. Cash flow is important, since after deducting dividend payments it gives a measure of the funds a company can plough back into business, whether in the form of capital expenditures, of debt repayment, or of addition to working capital. For these reasons the ratio of market price to cash flow is as widely used today as that of price to earnings. Similarly, the dividend payout, another important statistical factor, is calculated in relation to both cash flow and net earnings.

Yet another modern aspect in stock market analysis is the study of the supply and demand of common shares. In a sense this is nothing new, since it was known even before the first stock exchange was opened that prices were dependent on supply and demand. But, while the supply of new stocks resulting from issues or from conversion of bonds or exercise of warrants could be computed every

year, there were no estimates available on demand. This has now changed with the advent of the institutional investor as main buyer on the market, since one knows after the end of each year the net increase in new capital of open-end investment trusts and since the addition to stock portfolios of some of the other institutional investors can be estimated. Comparing these figures with the net increase in outstanding common stocks, the security analyst can arrive at valid conclusions concerning the performance of the market in the preceding year and even hazard a guess for the short term. It is interesting in this respect that in the U.S. pension funds made net stock purchases of about $1 billion last year, while mutual funds acquired more than $1.6 billion of fresh money. Thus institutional demand from these two sources alone probably exceeded $2.5 billion, or considerably more than the supply of stocks from new issues or conversion of bonds.

USE OF ELECTRONIC COMPUTERS

Another important factor in the development of security analysis has been the advent of the electronic computer. One obvious example of the use of the computer in stock market business is supplied by Standard & Poor's new stock indexes. These are scientifically set up by weighting each stock price according to the number of shares outstanding. Thanks to the swiftness of the computer, it is possible to calculate and broadcast the indexes every hour of the market day, no mean feat considering that the 500-stock composite index represents over 90% of the total value of all common stocks listed on the New York Stock Exchange.

The high-speed electronic computer is also helping in the adjustment of business indicators for seasonal variations, a time-consuming job a decade or two ago. This adjustment is all-important in a new method of economic forecasting which is of interest to the stock analyst, since fluctuations in the economy are the major determinants of stock market movements. The essential feature of this method, developed by The National Bureau of Economic Research in Washington, is the use of statistical indicators which have a time sequence to the business cycle. The search for business indicators with a forecasting value has been going on for a long time; Andrew Carnegie, for one, used to base his forecasts on the number of smoking factory chimneys. Others after him have used blast furnace activity, steel scrap prices, railway carloadings and various other indicators. In the years immediately following World War II, Warren Persons developed at Harvard University the so-called Harvard Indexes, drawn from the study of 24 statistical series in correlation with the business cycle. The method developed by the National Bureau of Economic Research represents a great improvement on the Harvard Indexes, as it is based on an extensive study of some 800 indicators, from which a few have been chosen because of their impressive performance during a number of business cycles in the past.

Several research organizations on this continent are experimenting with these indicators, which are generally called "diffusion indexes". The new forecasting method groups the indicators into three categories which have shown consistent characteristics in relation to the business cycle. One group, the "leading" series, is based on indicators which tend to lead changes in the general level of business activity. Another group, the "coinciding" series, is based on indicators which show coincidence with the movements of the economy as a whole. A third series, the "lagging" series, is based on indicators which tend to lag a few months behind the movements of the economy at large. In past business cycles the "leading" series would have indicated major changes in the direction of movement in the economy from six to 12 months before these changes have happened. The last two groups are helpful in interpreting the significance of movements in the "leading" series.

In the case of the diffusion indexes developed by the Investment Bankers Association of America, the "leading" series includes new orders for durable goods, contract awards for residential and non-residential construction, new incorporations, business failures (inverted), average number of hours worked per week in manufacturing industries, the price index for 22 basic commodities and the rate of growth in the money supply. The "coinciding" series includes industrial production, non-farm employment, freight car-loadings, turnover of demand deposits, unemployment (inverted), and the wholesale price index; while the "lagging" series includes manufacturers' inventories, personal income, consumer instalment credit outstanding and department store sales.

CANADIAN INDEXES

In Canada the Department of Trade and Commerce has been experimenting for some time with diffusion indexes, a number of which they have developed, while a private organization, General Research Associates of Toronto, publishes regularly diffusion indexes of its own. Most diffusion indexes fall into one of three general categories:

(1) Simple diffusion indexes — which merely record the number of indicators that have risen in a particular month as a percentage of the total number in that series, whether it be leading, coinciding or lagging.

(2) Duration of run diffusion indexes — which give effect to the number of consecutive months each indicator has been moving in a particular direction.

(3) Some work is being done on another set of indexes which would give effect to the number of indicators moving up or down and also to their rates of change.

Other refinements in the use of the method will probably be introduced as the experiment continues. At this time, its weakness is that the lead time of the "leading" series is not a fixed but a variable period and also that the series are as sensitive to levelling-off periods in the economy as to sharp reversals of the cycle. While this turn-spotting technique is far from perfect, it already shows great promise in the forecast of the business cycle. As such, it cannot be ignored by the stock analyst.

NATIONAL ACCOUNTS

Another source which may one day become helpful to the stock analyst and add a useful tool to his kit is the new "flow-of-funds" system of national accounting sponsored by the Board of Governors of the Federal Reserve system. Supplementing the gross national product series, it supplies information on the role of money and credit in the production process in the United States.

The "flow-of-funds" accounts divide the economy into ten major sectors: consumers, corporate business, non-farm non-corporate business, farm business, Federal Government, state and local governments, banking systems, insurance, other institutional investors, and trade with the rest of the world. For each sector the accounts show transactions in goods, money and credit in a consistent system of classification, as they identify and measure both the sources of funds and their use. In essence they provide a balance of payments statement for each sector in relation to the rest of the economy.

A "flow-of-funds" picture of the economy has already been published for each of the years from 1939 to 1956 and helps give a better understanding of the role of financial factors in economic fluctuation and growth. As well, this system of reporting sets personal savings in a better perspective than is possible in the Gross National Product series.

In Canada the staff of the Gordon Commission, the Bank of Canada and the Department of Trade and Commerce have been cooperating in drawing up so-called "national transactions accounts" covering the period 1946-1954, which are being published early this year as a study made for the Gordon Commission.[1] These are a version of the flow of funds accounts published in the Federal Reserve Bulletin and as such will provide an intensive analysis of the financial interrelationships within the economy. One difference, however, is that whereas the flow of funds accounts are exclusively concerned with transactions in which at least one of the things exchanged is either money or a credit substitute, the national transactions accounts include such matters as imputed transactions (the food a farmer produces and then consumes himself), etc.

Comprehensive flow of funds accounts are very new, 1955 marking perhaps the first official publication on the subject in the U.S. while in Canada figures are only being released this year. It should also be noticed that there has been so far a considerable time lag between the date of these publications in the U.S. and the period they cover. It would appear, however, that regular quarterly estimates are in the course of preparation. In considering the value of these new accounts in current forecasting, the time lag could be a serious disadvantage. Of greater importance, though, is their novelty. Up to now, economists have concentrated on assembling the material and not much work has been done on finding applications for it. As in the case of the national product accounts, it is only after they will have been available for some time that their practical usefulness is likely to be discovered, though it is safe to say that they will throw interesting light on such matters as corporate methods of financing the expansion in plant and inventories, as well as public holdings of securities. Mr. L. M. Read, one of the men who has done much of the work in Canada on the subject, has written: "These accounts may become to financial analysis what the national product accounts are to general economic analysis".

ECONOMETRIC MODELS

Since economic forecasting is of such great importance to the stock analyst, mention must also be made of the method which makes use of the so-called "econometric models". Like other systems of forecasting, it is based on the assumption that the relation between certain economic factors remains more or less stable. Thus, if part of these factors are known or are easy to estimate, it becomes possible to forecast the others. An econometric model can be set up for the economy as a whole, for one of his sectors only, or for any independent business. It is based on a set of equations which relate, on the basis of past experi-

[1]Hood, William C., *Financing of Economic Activity in Canada,* including "A Presentation of National Transactions Accounts for Canada 1946-1954," by L. M. Read, S. J. Handfield-Jones and F. W. Emmerson.

ence, the factors already known or for which reliable estimates are available (these are called the independent variables), to the factors which we are trying to forecast (the dependent variables). To take an example, if we succeed in finding for a certain industry a relation between some economic factors (say, population, disposable income, government spending, the cost-of-living index, etc.) and sales and profit of the industry, we can set up a series of equations embodying this relation. Using various estimates we can then arrive at short and long term projections for this specific industry. The "input-output" system developed by Professor Leontief is another form of econometric model, which links demand from some sectors of the economy (households, private capital formation, government purchase, exports and inventory build-up) to the output of individual industries and takes into account the supply of products between these various industries. These econometric models are increasingly tested at both government and business levels. They may well become an indispensable tool for planning capital expenditure programs and, to the investment analyst, they may provide one day an excellent guide to earnings projections and to portfolio management.[2]

Mention must finally be made of one other possibility of applying mathematics to the solving of investment problems. This is the theory of games on which the first paper was published in 1928 by the mathematician Von Neumann. It is only under the impact of the world war, with its problems of logistics, air defense, submarine warfare, etc., that the theory was more fully developed. In 1944, Von Neumann and Morgenstern published their own classic work, *The Theory of Games and Economic Behaviour*. As the title implies, the theory extends the solution of simple games to that of economic problems, but its scope is much wider since it can also be applied to such varied sciences as military strategy, statistics and sociology. Its aim is to analyze mathematically the "rational behaviour" of participants in various situations where there is a conflict of interests. Provided that all the relevant probabilities are available, the mathematician tries to determine what is the best strategy a participant can use to arrive at the most satisfactory result for himself. Sometimes it may be a "pure strategy", that is one that can be defined specifically at the outset, and sometimes it may be a "mixed strategy", meaning that two or more strategies will be used. In this case, the strategies will be mixed according to certain odds and, in order that the opponent be kept in the dark as to what strategy is to be used on each particular occasion, the decision in this respect will be governed by a suitable chance device.

An important criterion in any game or generally in any conflict of interest is the "pay-off", that is the end result for the winners and the losers. The theory of games applies a numerical scale to these end results in order to determine a pay-off for each player according to the strategy he uses. Taking as an example a very simple game between two players, it is easy to see that once each player's strategies and the respective pay-offs are determined, this information can be set in bookkeeping form. This is the pay-off table, which constitutes the first step towards the solution of a problem. In the simplest terms, game theory is an analysis of conflicts of interests aimed at drawing up a list of strategies and a pay-off table. The best strategy is defined as one which guarantees a certain pay-off, whether a maximum gain or a minimum loss, regardless of what the opponent may do.

It would take a volume and a knowledge of advanced mathematics, which the writer of this article does not claim to have, to explain in more detail the theory of games. Suffice it to say that in its present stage the theory of games is only in the early stages of development. While it has already found interesting applications in military problems and in statistics, the theory is not yet of any particular use in economics. One difficulty lies in measuring the pay-off for any given player in the more complicated problems. However, new mathematical approaches have already been found to tackle some of these problems and, no doubt, other approaches will be developed in time. Important is the fact that it has been demonstrated that there must exist in each case a solution showing the "best possible" or "rational" strategy.[3]

Regarding the stock market, it is unrealistic to expect that the theory of games will ever allow for better forecasting. It is not unreasonable to anticipate, however, that it may one day prove helpful in portfolio management and in other problems involving a choice of policy.

[2]A number of econometric models are in use in Canada. Mr. Lawrence Klein worked on one for the Department of Trade and Commerce in the late 1940's, and this model has been subsequently further refined.

[3]Williams, J. D., *The Compleat Strategyst* (McGraw-Hill Book Company, Inc.) and *Games and Decisions* by R. Duncan Luce and Howard Raiffa (John Wiley & Sons, Inc.) are recommended to those interested in acquiring a general knowledge of the theory of games. Three short articles on the subject by Leonid Hurwicz, L. Vajda and Abraham Kaplan can be found in Volume II of *The World of Mathematics* by James R. Newman (Simon and Schuster).

Canadian - U.S. Economic Relations — Current Issues

In this, the second of two articles dealing with Canadian-U.S. economic relations, Dr. Reuber examines several of the more contentious current issues. In so doing, he draws on some of the background contained in his article in the winter issue. His provocative conclusions are contained in the following paper.

G. L. REUBER

Some general characteristics of Canadian-American economic relations were briefly described in the first part of this paper. Part two will be concerned with three particular issues of importance at present: commercial policy, surplus wheat disposal, and United States control over strategic sectors of Canadian industry.

COMMERCIAL POLICY

In considering the issue of commercial policy three general points might be noted at the outset. First, barriers to trade between Canada and the United States have been significantly reduced since the thirties. For the most part this reflects the tariff reductions negotiated since inauguration of the Reciprocal Trade Agreements programme in the United States and the General Agreement on Tariffs and Trade (GATT), as well as the debilitating effect of price inflation on specific duties. Secondly, the emergence of a network of international agreements centering on GATT and the International Monetary Fund has contributed to orderly trade and payment arrangements and has provided a recognized international grievance procedure. Thirdly, since 1939 many Canadian exports have had freer access to the United States market than to many other major world markets, taking into account not only tariffs but also quota and foreign exchange restrictions. This said, the fact remains that tariffs exist on both sides of the Canadian-United States border, that these are raised and other restrictions are applied from time to time, that customs administration and government purchasing policies sometimes impede trade, and that commercial policy in both countries is subject to some uncertainty.

Canadian commercial policy in recent years has, of course, been influenced by a variety of factors. Among these has been a desire to see more secondary manufacturing established in the country. Another factor has been the desire to diversify Canada's geographic pattern of foreign trade—or at least to limit increases in the share of our trading done with the United States. In addition, the development of more competitive economic conditions in Canada and elsewhere since the early 1950's has made its influence felt. These and other factors affecting Canadian commercial policy have, however, all been subject to the constraint imposed by the country's prosperity being heavily dependent on foreign trade, particularly on trade with the United States. And although some increases in protection have been granted in the past decade and others may be granted in future, it seems to be fairly widely recognized that a general move by Canada to significantly higher protection in times of roughly full employment would be costly to this country. Consequently, there is a strong natural factor moderating those influences that would tend to lead Canadian commercial policy into directions inimical to United States trading interests.

Two features of Canadian commercial policy that have attracted some notice in the United States within the past few years are Canada's attempt to divert some imports from the United States to the United Kingdom and, secondly, amendments to the Canadian Customs Act altering the basis of valuing imports for duty purposes. Apart from the merits or

(In preparing this paper extensive use has been made of *Canada-United States Economic Relations* by I. Brecher and S. S. Reisman.)

otherwise of diversion, the United States to date would seem to have little cause for complaint. So far the degree of tariff discrimination favouring British producers over American producers has not changed significantly. As for the amendments to the Canadian Customs Act, these would appear on the surface at least to increase somewhat the degree of discretion and uncertainty in the administration of the Canadian tariff. American objections to these amendments so far seem to rest mainly on legal grounds rather than on grounds of injury actually sustained. Whether or not the amendments are consistent with the GATT rules, the damage to the American economy generally because of these amendments is unlikely to be very great.

It seems fair to say that United States commercial policy has been a more important issue in Canadian-American relations than Canadian commercial policy —if only because United States policy has a much greater impact, relatively, on this country than our commercial policy has on the United States. At the same time one must remember that about three-quarters of Canada's exports in recent years have entered the United States at zero or low rates of duty. Moreover, United States tariff rates on dutiable goods of importance to Canada now stand on average at about one-half, and in some cases one-quarter, of their 1934 level. (The average duty collected on dutiable goods imported into the United States from all countries has declined from some 25% in 1934 to about 12% at present.)

Several characteristics of the American tariff command particular attention. First, like the tariff of many other countries, including Canada, the United States tariff permits relatively free entry for raw materials and increases progressively with the degree of manufacture, sometimes to prohibitive levels. There is thus a structural bias against the export of Canadian manufactures to the United States which has tended to distort the pattern of Canadian trade and production. How important this distortion has been remains an open question. To some extent at least the distortion arising from the structural bias in the United States tariff has been offset by a similar structural bias in the Canadian tariff.

A second noteworthy feature of the United States tariff is the complexity and uncertainty associated with customs administration, valuation and classification. In many instances this "invisible tariff" has been a greater deterrent to Canadian exports than the height of the tariff itself. In 1956 a Customs Simplification Act was passed; although this legislation represents an advance, more remains to be done.

Thirdly, the escape clause provisions of the United States tariff, including the "defense clause" and "peril point" provisions, make American tariffs uncertain. As a result foreign suppliers are deterred from initiating and expanding sales in the United States since to do so runs the danger of provoking action under these escape provisions. Greatly exaggerated ideas are, however, current about the extent to which these provisions have been used: from 1948 to 1955 limited action was taken under the general escape clause in only one item of significance to Canadian trade (alsike clover seed).

Fourthly, United States government purchasing policies have in the past discriminated heavily against foreign goods. This discrimination was reduced in 1954 when the margin of preference given to domestic products was reduced, subject to certain provisos, from 25% on laid-down tariff-paid prices to 6% to 10%; and the Defense and other Government Departments have apparently applied the provisions somewhat more liberally in recent years.

A fifth feature of American commercial policy of particular importance to Canada has been the application of informal restrictions, quotas and tariffs on imports of primary commodities, including various industrial materials (e.g. lead, zinc, and petroleum) and agricultural products (e.g. grains, dairy products, and potatoes). Informal arrangements have sometimes been tried first, only to give way to formal quotas and fees later. In the case of agricultural products, the restrictions are sanctioned by a blanket GATT waiver reluctantly granted the United States in 1955. Although Canadian exports to the United States have been impaired somewhat by these measures, it is evident that their over-all impact on Canadian trade has so far not been too serious. Perhaps the most serious aspect of these measures is that they leave little room for growth in Canadian exports of those products to which they apply.

Primary commodity trade and production has become a troubled sector of the world economy during the past few years. Practically all countries, including Canada, have at one time or another given way to pressures for increased protection. Frequently this has been a necessary concomitant of unrealistic price support and raw material stock-piling policies. This whole matter is a subject in itself. Suffice it to say that the United States has failed notably to provide the leadership and example that one might expect from the free world's leading economic power.

SURPLUS WHEAT DISPOSAL

United States commercial policy in the primary commodity field has damaged Canadian interests not only by restricting United States imports but also by subsidizing American exports which compete

internationally with Canadian output. Canada's wheat producers in particular have sustained damage on both counts, the damage arising from subsidized wheat exports being particularly significant. Canadian wheat producers under ordinary commercial conditions can compete with production almost anywhere in the world. They cannot, however, compete successfully with subsidized supplies; nor can the Canadian Treasury hope to match subsidies forthcoming from the vastly larger resources of the American Treasury.

For a variety of reasons the United States has made a greater effort during the past few years to administer its surplus disposal activities in such a way as to avoid interference with normal commercial sales. This is very difficult to do because of the problem of distinguishing those sales that are normal from those that are not. Be that as it may, the fact is that huge surpluses of wheat remain and may increase because of unduly high price supports. Moreover, the United States share of world wheat exports continues to be much larger relative to that of Canada and other exporters, than it was prior to World War II. For these and other reasons many of the basic stresses persist as far as this issue is concerned. Restoration of some sort of balance in the wheat economy will probably require several approaches, including particularly an orderly disposal of existing stocks and a genuine curbing of unrealistic domestic policies subsidizing uneconomic production.

UNITED STATES CONTROL OVER CANADIAN INDUSTRY

In some respects the issue of United States control over Canadian industry seems rather artificial. Anyone investing and owning assets in Canada is ultimately subject to the laws and sovereignty of the country. Moreover, even if American investment is shown to be less desirable than domestic investment, this is largely irrelevant since the alternative to United States investment has been substantially less investment. Furthermore, on the assumption that corporations primarily seek and are free to maximize their profits, one might expect business decisions to be little affected by nationality *per se.* In addition, despite considerable discussion many of the examples specifically cited of damage to Canada because of foreign ownership and control have been isolated and of relatively minor significance. Finally, this area generally has been comparatively free from direct government interference, and developments in it reflect mainly the outcome of natural economic forces. It remains true, however, that many Canadians are concerned about the degree of control over Canadian industry exercised by Americans and that this issue has been a disturbing factor in Canadian-American economic relations.

There seem to be three major allegations against United States control over Canadian industry. First, it is said that such control militates in some respects against the development and employment of Canadian resources and productive factors. Cited in this connection are the reliance of United States subsidiaries on research done at the parent company rather than the establishment of domestic facilities, the failure of American companies to use Canadian managerial talent as fully as they might, the failure to set up advanced processing plants in Canada because of plants already established in the United States, regulation of the level of output and employment in Canada in the interest of stabilizing output and employment at the parent firm, and postponement in the development of Canada's natural resources in the interest of protecting corporation interests elsewhere. To the extent that practices of this kind discriminate against the employment and development of Canadian resources, damage may be inflicted on the Canadian economy. On the other hand, it is possible that our complaint may be that United States subsidiaries have not departed sufficiently from principles of profit maximization by discriminating in favour of things Canadian. Should this be true, it is conceivable that foreign control, as opposed to domestic control, may have enhanced Canada's prosperity. In any event, United States investment has clearly played an important role in the development of Canadian resources and employment opportunities, and the fact that United States investors may not always have gone the last few steps of the mile must be viewed in proper perspective.

The same can be said about a second group of allegations relating to marketing, purchasing, and pricing policies. Canadian subsidiaries may not press exports in the United States and elsewhere in competition with the production of the parent company and other subsidiaries; the parent company may closely control purchasing policy and direct the subsidiary's requirements to itself and to its suppliers; and the prices charged in intra-company transfers may be unrealistic. This latter possibility will be more important if a tax advantage is allowed to develop because tax authorities in the two countries do not take an active interest in intra-company pricing. As to these problems generally, it is evident that market imperfections exist. What is not clear, however, is the degree to which these imperfections may have impaired Canada's per capita national income.

Finally, a number of non-economic aspects of United States corporate behaviour have been criticized. Corporate behaviour as influenced by United States anti-trust laws, defense requirements, export regulations and tariff policy has been mentioned in this connection along with the alleged failure of

United States subsidiaries to integrate themselves into the Canadian community and to contribute their fair share to the cost of community projects. A balanced perspective is called for here as well.

In considering this whole question of United States control over Canadian industry, one final point needs to be emphasized. Many of the questions which arise can only be adequately answered on the basis of objective empirical analysis. Until studies embodying such analysis and based on comprehensive and reliable information become available, one can only reserve judgment on most of these questions.

SOME CONCLUDING COMMENTS

In the course of the foregoing review no mention has been made of an organizational problem which has sometimes been mentioned as an obstacle to smoother Canadian-United States economic relations. This is the separation of powers between the President and his Administration on the one hand, and Congress on the other. Generally speaking, the Administration is regarded as being more sensitive than the Congress to the implication of United States actions on other countries and resisting domestic pressures more strongly. Much of the legislation damaging to Canadian interests (e.g. in the field of primary commodities) has, it is said, either originated in Congress or has been acquiesced in by the Administration in order to gain some larger objective. During the past year a joint Parliamentary-Congressional Committee has been established in an attempt to alleviate this difficulty. The success of this step remains to be seen.

Throughout this discussion little consideration has been given to the non-economic implications of our economic relations with the United States. These broader implications are, of course, important and must be fully taken into account in forming a final judgment on the various questions raised above. This leads well beyond the limits set for this discussion. It bears mention, however, that if one fears the social and political implications of Canada's economic dependence on the United States and for this reason wishes to see this dependence reduced, one must be prepared to advocate fairly drastic measures which will substantially change the present position—recognizing, of course, that such measures may well require an appreciable reduction in Canada's per capita income. Hopeful appeals and marginal measures capable of shaving a few percentage points from the figures pertaining to our trade and investment transactions with the United States are unlikely to make us less American or to win for us a significantly larger measure of political independence.

In conclusion, it would obviously be unrealistic to expect relations between two countries that have so many points of contact to be without some friction. As the world's dominant economic power, the United States has a wide array of domestic interests to consider as well as the many interests of almost every other country. In the nature of things, Canadian-American relations do not loom as large in the United States as in Canada where, understandably, they are almost a national preoccupation. In these circumstances two general suggestions ventured by the Gordon Commission seem particularly appropriate:

"Such economic problems as may arise from time to time between the two countries would be eased, in our opinion, if more Americans could remember to think of Canada, not as a hinterland, but as a country. Canadians, for their part, while taking such action as may be necessary to provide the economic basis for the nation they are building in the northern half of the continent, would do well to recognize how much they have profited from having as neighbours a people so productive, so ingenious and so capable of magnanimity."

WHAT MAKES FOR SATISFACTION AT WORK?

How many of us have really studied what makes for satisfaction at work? Most of us would probably bracket pay and security in first place, which may be correct and is dependent upon the current economic conditions. Yet it is interesting that in a nation-wide poll conducted in America before the recent recession the employers put fair pay at the head of the list and credit for work done seventh; but the workers put credit for work done first and interesting work second and fair pay third. Workers like jobs that give them a chance to display their skill and show their worth, and place considerable value upon their acceptance as members in a congenial work group. I have to admit that to the industrial engineer the human being is more productive the more thoroughly his work is planned, but to the social scientist the stress lies in man's need to participate.

I do not suggest that giving a man recognition, making his job interesting, and providing him with a good team leader and a congenial working group are going to make him willing to accept a relatively modest level of pay or casual terms of employment; but I do feel, other things being equal, that these matters have a far greater bearing on the results attained in industry than we realize.

—D. L. Nicolson
The Manager
Journal of the British Institute of Management

Manning the Management Team

Clare Fraser, widely-known for his speeches and writings on many phases of personnel development, here gives his observations on the important task of picking the right man for the right management job. The author lists three crucial questions which he says should be used as a checklist in making such decisions.

CLARE FRASER

Here are "certain brief notes set down significantly rather than curiosly". When Bacon used these words I understood he meant by the word 'significantly'—as a signpost; and by the word 'curiosly'—with care. What I am pointing to in this article are some of the signposts the author has found useful in working at the manning process. Many of these signposts have been set up by students and writers over the years; some which have been found particularly helpful are indicated at the end of the article.

The signposts might best be illustrated by reference to an actual case that involved the author of this paper not long ago.

Recently in downtown Toronto I met a business friend, a senior management man of a well-known Canadian company. We met at a downtown corner and walked north one block, where we parted. He said, "I'm thinking of appointing John Jones to Bill Brown's job, when Bill retires next month. What do you think of the idea?" I asked him three questions which he answered. As we paused in parting I said "It looks good to me". We had been together for 80 seconds strolling the 130 yards. Within that interval he had communicated a complete manning decision to me, and I had checked it, to his satisfaction and mine.

THREE QUESTIONS

These were the questions:

1. On what basis do you intend to use this opening?

2. Of those you have looked at, is John Jones most ready to fill the job, on the basis you have in mind?

3. How will the move affect him?

The first question prompts what might be thought of as a strategic decision. The other questions are in the realm of tactics. The first question forces attention solely and sharply on the needs of the business—over the long pull. It is a capital investment type of decision. In putting it to my friend I recognized, as he did, that the basis on which he used every job opening in his management organization structure would eventually make him or break him. Consequently, when he answered me by saying "We need a young man in there with general manager potential, who could be ready if we need him three years from now" my mind shifted to thinking of people like John Jones, whom I knew. So mentally I said "O.K.". But he could have told me "We intend to use it for preretirement purposes;" or "we are going to use it to lateral a fellow in for a while so that we may bring another man up through his job". If he had indicated those uses, other names would have been advanced rather than John Jones.

This type of "job use" thinking is the key to effective manning. It involves a very advanced type of organization thinking by all executives. It is not rigid, for a job opening may be used on one basis today and on another basis next year. That depends on continuous alertness to what is going on; on flexible long-range planning; on an intensive understanding of what every management job can do in building

the business; and in providing for the growth or protection of a man. Too often, in management circles this first question is not the starting point. Too many appointments start off on a personal note and get fouled up with seniority or other personal issues. When used, this first question is a useful filter. It will reduce a possible candidate group selected only on the yardstick of being able to handle the job down to the few who will meet the "basis of organization use". I have seen a list of 50 names shrink to five, automatically and without argument, when a management group were making a high level appointment, by using this number one question.

The second question—the "who is most ready" question—brings in the man-to-man comparison element. By "ready", I mean equipped now to take over without more than incidental coaching or correction. This is a key point. The correct answer to this question, on the point of the man being fully prepared to act on his own, will reduce staff assistance costs and other costs. A manager's job is not like some specialist or other personal types of jobs. The manager has to perform every part of it at a top quality level the minute he takes over. It's the difference between the quarterback and other players. When my friend said "John Jones" was most ready, I asked him who else had been considered. Having consulted with his company I knew his managers, and my own view of John Jones was the same as his. His judgment, I knew, had been built up over the years with the assistance of a simple and effective personnel review and development procedure used throughout his company. He is one of the most advanced senior managers I know.

But before being fully satisfied I waited for the answer to the third question, "How will the move affect Jones?" What this question means to me is "Does he want the job, and what might lie beyond it? Is he prepared to pay the price of generally managing? How will the move affect his family and their plans?" These questions are in the area of the man as a human personality, within his family and other social setting. They prompt us to think of meeting his needs through the job opportunity.

Protecting the long-term business interest through question 1; the job interest through question 2; the person's interest through question 3—this is the stripped-down combination in manning, as I have watched it, and taken part in it over many years, and in many situations. When used, these questions and sound answers to them produce appointments which men of good will accept, even if they are also-rans, in manning decisions. For people respond to decision-making processes that are objective, realistic and human in feeling.

Recently the author was challenged by a group of younger management men on how certain promotions in their company had been handled. Instead of outlining the general procedure, necessarily complex in detail, I told them how three recent appointments had been made, using a play-by-play description based on the three-question sequence. They were asked to think with me through each question for each appointment, and come up with their own judgment. They had not applied that particular thought process before; they did not have all the needed details of information in their heads; nor had they been trained in the techniques. So they took much longer in talking it through than the 80 seconds used while my friend and I had walked one block and checked over the action he had in mind. However, they came to two conclusions of interest to me. The first was their general agreement that the particular promotions were sound. Then one said "this thoroughgoing analysis method certainly gives you confidence in the decisions made, but boy, does it make you think!"

SUMMARY AND CONCLUSIONS

This article obviously presents an over-simplified sketch of one aspect of decision-making by managers. The thought process, while simple, is not easy. It involves recognizing many factors in ever-changing organization and human situations.

It is doubtful that any other person can do our thinking for us in these manning decisions. But others can travel along with us in our mental and emotional processes. They can help in two ways: they can point to signposts which indicate ways of identifying key factors in organization and human situations; and they can show us techniques in the use of management tools, such as those used in gathering information, giving information, in formulating decisions, and in inducing others to make appropriate decisions.

Over the years, the author has found such help in thought and technique from two sources. First from decision-making managers with whom I have participated in using this "Three Question" process. This has involved thousands of specific applications, all similar in general pattern, but no two alike in detail. Second, from those students and exponents of administration and related arts and sciences who have put their studies and experiences down on paper.

In the early 1930's Walter Dill Scott alerted my attention to personal career development when he pointed up the three factors of capacities, interests and opportunities. At about the same time Lyndall Urwick provided a useful structural picture of organization theory through his paper on organization as a technical problem. By combining these signposts of

Scott and Urwick, the writer was guided along the trail of organization and human development planning. Many other signposts have guided me over the intervening 25 years, some of which are listed in the appendix.

The points that are listed in this article have been distilled from many such sources, and have withstood the test of practical business application. Careful perusal of the source material in this field will surely reward anyone with ideas on this dynamic aspect of managership—one which has been neglected too long by too many business people.

APPENDIX

Some sources useful in manning the management team.

Scott and Clothier, etc., ***Personnel Management***, re-edited approximately each decade since 1923.

Urwick, Lyndall, his 1934 paper on ***Organization as a Technical Problem***, published in papers on the Science of Administration 1937; by Institute of Public Administration, Columbia University; other papers and books by Urwick have followed, bearing heavily on the subject of organization structure.

Dale, Ernest, for his book assembled for the American Management Association, ***Planning and Developing the Company Organization Structure***, 1952.

Sampson, Robert C., for his book ***The Staff Role in Management***, 1955 which amplifies and expounds much of the Urwick thinking on general staff functions.

Riegel, John, for his studies of "Basic Managerial Responsibilities" published in the ***Harvard Business Review***, 1935, and his subsequent texts, including his most recent reports on specialist personnel.

Brown, J. Douglas and Harbison, Fred, for their most recent report ***High-Talent Manpower for Science and Industry***, 1957 as well as many preceding signpost contributions.

Appley, Lawrence A., for his report in the thirties on senior manager development, and most recent collection of papers in the book ***Management in Action***, 1956.

Shartle, Carroll L., for his basic work on occupational analysis, and subsequent studies in executive and related work, at Ohio State University.

Carlson, Dick, for his ***Guidebook for Personal Development*** and other related contributions.

McGregor, Douglas, for his emphasis on a man writing his own ticket within the boss-man relationship.

TRAINING ENGINEERS

Time was when it was possible to teach an engineer in a few years what he would need to know. If he was brilliant, he could work out fundamental principles for himself in the course of his working life. If he never worked them out, he would no doubt miss a few possibilities and he would be unlikely to keep up with new knowledge and principles, but he would get by.

That attitude, never admirable, is now anachronistic. It is no longer possible to teach an engineer all or most of the known facts. The attempt to do so—the almost indefinite extension of the syllabuses —is dulling the minds even of the brilliant. And the rate of technical progress is now such that if an engineer relies on what he learnt during his formal education he will be hopelessly out of date long before the completion of a forty-year career.

The present syllabuses should be slashed. What an engineer can be left to learn during the course of his career is the details. The memory work involved in what remains of the syllabuses should be greatly reduced. Students should be allowed reference books in their examinations. This would remove the artificial incentive to learn what is needless and allow the emergence of the natural incentive to learn what is useful, to save the bore of constantly looking it up—and time in examinations.

The time and energies saved by these means should be used to teach students scientific method and the fundamental principles of engineering. All such teaching must consist largely in problem-solving. If the problems chosen must be in some degree artificial, they need not be . . . 'in two parts, the first part of which, by implication, tells the student which piece of fundamental knowledge is required to solve a problem given in the second part which, in turn, gives all, and nothing but, the data required to arrive at a one-hundred-per-cent answer'.

—The Manager

Journal of the British Institute of Management

Changing Dimensions in Marketing

Perhaps no single field of business is changing as rapidly as marketing. In the following paper, Dr. Lazer attempts to place the more recent developments in the perspective of the total marketing job.

WILLIAM LAZER

The promise and potential of the future economic growth of Canada is great. This fact is being referred to repeatedly in countless articles and speeches. Such predictions are substantiated by sophisticated statistical studies founded on research into basic economic and demographic factors, and the projection of recognizable trends into the future. Projections have been made that the gross national product in Canada in 1980 will be $76,000,000,000, an increase of 159% over 1956, and that the real income per family will have increased by two-thirds.[1] This information is often interpreted by businessmen as concrete evidence that future markets of unprecedented dimensions and profitability are naturally bound to exist.

All of these predictions, however, merely indicate an opportunity—an opportunity which is predicated on fundamental assumptions concerning the effectiveness of future marketing operations. Canada's economic opportunity will only be recognized fully if significant marketing challenges can be met successfully. Large populations, after all, do not automatically assure profitable markets. The heavily-populated areas of China and India are prime examples of this. Nor does the fact that consumers have money assure the existence of profitable markets. A high level of total savings by consumers in both Canada and the United States actually existed during the recent business slump. It is important to realize, therefore, that Canada's future growth will not occur automatically. The fruition of the potential market opportunity will demand considerable effort on the part of Canadian businessmen. Profit opportunities will only be realized if business management recognizes the critical position now occupied by marketing in company operations and adopts a rational approach to the solution of marketing problems.

Some indication of the crucial position of marketing considerations in managing company activities is brought out by Peter Drucker in *The Practice of Management*. Drucker points out that "because it is its purpose to create a customer, any business enterprise has two—and only these two—basic functions: marketing and innovation. They are the enteprenteurial functions. . . . Markets are not created by God, nature, or economic forces but by businessmen".[2] It is this matter of actually creating markets which will become one of the primary tasks confronting business management in the future. Canadian businessmen, therefore, must be prepared to initiate creative marketing programs and implement effective marketing strategies if our growth potential is to be realized.

Various dynamic business forces which now exist, and which will take on added impetus in the future, substantiate and reinforce these conclusions. The trend to automation with its increasing volume of production, heavy fixed costs, and high break-even points will require a commensurate volume of sales and more extensive marketing effort. The severe degree of competition which now exists in many markets, and which will be compounded in the future by firms seeking to maintain and extend market shares, will demand more comprehensive and effective marketing programs. The development of new products, which will progress at an increasingly faster rate in the future, and which involves considerable investment and market risk on the part of management, must be rooted in management's ability to stimulate adequate market acceptance. Such forces as these are indicative of the increasing demands which will be

[1]"Comments on the Royal Commission on Canada's Economic Prospects", *Newsweek*, January 21, 1957, pp. 57

[2]Drucker, Peter F., *The Practice of Management*. New York: Harper and Brothers, 1954, pp. 37.

made on the efficient performance of marketing tasks in the future management of company affairs.

In view of such demands on our future marketing system and of the key position that marketing holds in both company affairs and in the determination of our economic well-being, a question may be raised whether marketing will be able to meet these impending and impossible challenges. The answer, of course, will only be determined at some future date by an evaluation of what actually occurs. However, there are several indications that marketing practices are now being adapted to meet future challenges more effectively. These indications are evidenced in certain fundamental changes which are occurring in the marketing area. Among the basic changes which can be recognized in current marketing practices are: the adoption of the marketing management concept, the institution of organizational changes, the acceptance of the systems approach, the use of more rational approaches to marketing decisions, the recognition of international dimensions of marketing, and the adoption of an interdisciplinary approach to the solution of marketing problems. Each of these basic changes will be briefly reviewed.

MARKETING MANAGEMENT CONCEPT

Recently there has been considerable attention focused on the marketing management concept. It has been heralded as one of the newer dimensions of marketing thought and practice. The marketing management concept is characterized by the application of creative executive leadership and effective management to the solution of marketing problems. It involves "planning, organizing, actuating, and controlling marketing factors to achieve clearly defined company objectives".[3] This concept emphasizes the marketing philosophy as a way of business life.[4] When the concept is fully embraced by a company, marketing forces, needs, and opportunities become the basis for designing the total system of business action.

Fundamental to the acceptance of the marketing management philosophy is the adoption of a consumer orientation to business decisions. Here the consumer becomes the fulcrum about which all business activities revolve. Business functions, whether finance, personnel, production, marketing, or others, are not regarded as ends and goals per se—but are viewed essentially as a means of satisfying consumer wants. Thus, company problems are appraised as consumer problems and not merely as problems in any of the functional business areas. The marketing management approach, therefore, is concerned with the constant adjustment of the total firm's operations and the goods and services offered for sale to market demand. Marketing thus becomes a focal point for the determination and implementation of the fundamental strategies of the business as a whole.[5]

ORGANIZATIONAL CHANGES

Related to the increasing acceptance of the marketing management philosophy by businessmen is the change occurring in organizational structures. Organizational arrangements are being adjusted to coordinate and direct the total marketing effort more effectively Several companies have grouped all marketing activities under the authority and responsibility of a top management executive. This executive is often referred to as a director of marketing or a vice-president in charge of marketing. Such an arrangement should provide a more profitable determination of the overall marketing "mix" (i.e. the most effective combination of possible elements in a marketing program, such as price, advertising, personal selling and sales promotion), and the development of superior marketing programs.

These organizational changes are resulting in the regrouping of market-related activities into specialized departments, the addition of activities for the marketing department which have marketing consequences and were formerly performed outside of the marketing area, and the close coordination and integration of all marketing actions with other business activities.[6] Under these organizational changes, such activities as personal selling, advertising, marketing research, sales promotion, product development, merchandising, customer services, dealer relations, and credit—all of which have an important bearing on the total marketing program — are grouped under the authority of the primary marketing executive. This trend should result in better planned and more coordinated use of total marketing resources, and a more profitable implementation of the overall marketing program.

SYSTEMS APPROACH TO MARKETING

Marketing executives increasingly are adopting a systems approach to the solution of marketing prob-

[3]Kelley, Eugene J., and Lazer, William, *Managerial Marketing: Perspectives and Viewpoints.* Homewood, Illinois: Richard D. Irwin, Inc., 1958, pp. 478.

[4] For a detailed discussion of the marketing philosophy, see Borch, Fred J., "The Marketing Philosophy as a Way of Business Life," *American Management Association, Series #99.*

[5]For a discussion of the managerial functions of marketing, see Staudt, T. A., "The Managerial Functions of Marketing," Kelley and Lazer, *op. cit.*

[6]For a comprehensive report of the changing nature of the organization of marketing activities, see Bund, Henry, and Carroll, James W., *Journal of Marketing*, January 1957, pp. 268-325.

lems. The systems approach recognizes the interrelation and interconnection of components of the marketing program as well as between marketing and other business elements comprising the total business system. It is an integrated approach to marketing action. Under this concept, marketing activities are conceived of as comprising systems.[7] At least two levels of marketing systems are being recognized by marketing management.

First, marketing is viewed as one significant element — perhaps the most crucial one — in the total complex of the entire business system. Here marketing managers must make their decisions not only in terms of marketing considerations, but in terms of the impact on total firm operations and its overall objectives. As such, attention is paid to the interaction and impact of marketing in maximizing the firm's total profits and not just the profits of the marketing department. Under the systems approach, marketing is also viewed as an independent sub-system. From this perspective, attention is directed to the interaction and impact of all the elements of the marketing mix in formulating an effective total marketing program. It is here that the marketing manager is concerned with balancing such factors as channels of distribution, advertising and sales promotion, personal selling, prices, product policy, and physical distribution, and developing a unified and coordinated goal-directed marketing program. It is interesting to note that this marketing sub-system has a dimension which extends beyond the formal boundaries of the company; it is concerned with integrating and coordinating the activities of raw materials producers, processors, manufacturers and their distributors into a complete and logical distribution system to take care of consumer wants and needs.

Within the marketing sub-system, a systems approach is being taken by management to the solution of problems in various functional areas. This is evidenced by the evolution of such concepts as the promotional mix, the product mix, and the physical distribution system. Basically, these concepts refer to a broad view of each of these specialized aspects of the total marketing program, and a consideration of the interaction of the elements within each specific area. Respectively, they imply a consideration of a total promotional system which integrates all of the promotional activities, be they advertising, personal selling, publicity, or sales promotion activities; an organized and coordinated approach to determining the variety and assortment of items which together make up a company's total product line offered to the market; and an integrated approach to the solution of warehousing, transportation, handling and storage problems. The adoption of a systems approach to problem solving by marketing management promises to increase the effectiveness and profitability of the total marketing program by reducing and eliminating overlapping and uncoordinated effort.

[7]See Dobrin, Saxe, "Will the System be Your Market of the Future," *Industrial Marketing*, November, 1957, pp. 10, 11-58, for a discussion of the systems concept.

RATIONAL APPROACH TO MARKETING DECISIONS

Hunches, common sense and judgment have always formed the bases for marketing decisions. There is, however, a healthy trend in marketing management to the acceptance of a more rational approach to problem-solving. Marketing executives are tending to adopt a fact-founded approach to the solution of marketing problems. A continuous trend to the application of scientific methods in the management of marketing operations has been emerging. Many qualitative and crude quantitative approaches are being replaced with more precise and refined measurement tools. For example, the use of mathematical, statistical, psychological, and sociological methods in the application of operations research and linear programming, depth interviewing, projective techniques, scale-ranking devices, and improved sampling techniques have provided better marketing information for decision purposes. In addition, advancing technology, through the development of electronic computers, is making available more and better current data as a basis for informed executive action. As a result, marketing managers are becoming more analytical and objective in problem-solving. Recent experiments have been conducted in simulating business decisions in an effort to improve management skills in decision making.[8] In the future, marketing management will rely more heavily on objective and quantitative measures of marketing activity to help maximize market opportunity.

INTERNATIONAL DIMENSIONS

One important and continuing development in marketing is the constant extension of market boundaries and the increasing significance of foreign trade. Marketing management must now perceive of market opportunities not merely in the sense of a regional or national market, but in terms of their international dimensions. To a certain extent, Canadian businessmen have always thought in these terms to a greater extent than their U.S. counterparts. The development of international markets will profit both Canadian and U.S. businessmen and their counterparts in foreign countries. To date, marketing remains a poorly-developed segment of foreign economic systems.

[8]"The Business Decision Game", *Fortune*, March, 1958, pp. 140-42, 212-14.

Generally, foreign countries are now largely concerned with increasing production and have ignored marketing problems. Some of them, however, have glimpsed the necessity of paying increasing attention to marketing activities. In the future more consideration will be given to cultivating better and more profitable markets in foreign lands, to speeding economic maturity in other countries, to passing our marketing know-how on to our international neighbours, and to better understanding of Canadian responsibility in foreign trade. Regarding marketing's role in development of foreign countries, it has been written that:

> "Marketing occupies a critical role in respect to the development of such 'growth' areas. Indeed marketing is the most important 'multiplier' of such development. It is in itself in every one of these areas the least developed, the most backward part of the economic system. Its development, above all others, makes possible economic integration and the fullest utilization of whatever assets and productive capacity an economy already possesses."[9]

INTERDISCIPLINARY APPROACH

The study of marketing is relatively new and has been largely rooted in a consideration of its economic dimensions. Recently, however, marketing practice has been enhanced by recognizing and utilizing the contributions made available through other disciplines. Perhaps the most productive field to this time has been that of psychology. The research contributions of psychologists have been utilized in such areas as consumer motivation, consumer behaviour, and more effective performance of advertising and selling.

[9]Drucker, Peter F., "Marketing and Economic Development," *Journal of Marketing*, January, 1958, pp. 252.

However, the contributions of other disciplines are equally promising. Among the developments of other fields which have been utilized in marketing are the contributions of sociology, with the study of group behaviour, group characteristics and influences, and use of leisure time; social psychology, with the investigation of attitude measurement, public opinion, and mass communication; ecology, which focuses on the growth and development of cities, suburbs and exurbs; demography, which deals with population shifts, trends, and predictions; social anthropology, which is concerned with social status and social systems; philosophy, which has contributed to scientific methodology, decision making, and ethics; mathematics and statistics, which have contributed significantly to the application of sampling techniques, operations research, and linear programming. These developments are affording marketing managers opportunities to understand better the quantitative and qualitative dimensions of markets and to increase the effectiveness of their marketing decisions and total programs.

CONCLUSION

The fundamental changes in marketing operations which have been discussed point out several dimensions of marketing development. They are indicative of the fact that the primary task of marketing management is constant adaptation to change. The extent to which business management is able and willing to adapt to market wants, needs, and forces will shape company profitability and determine in large measure our economic well-being. One of the prime responsibilities and challenges of business management is to increase the efficiency of marketing performance so that the promise and potential of our economic growth may be fulfilled.

A Managerial Approach to
DEPRECIATION AND DEFERRED INCOME TAXES

The methods used in accounting for depreciation and deferred income taxes can often have a significant effect on reported profits. In this article, critical examination is given to alternative depreciation policies and their implications for financial policy.

SAMUEL A. MARTIN

Since the Income Tax Regulations governing depreciation were revised in 1954, there have been numerous articles in accounting journals recommending various accounting treatments of the tax saving which results when a company claims maximum capital cost allowances for tax purposes but a smaller depreciation charge in their records and financial statements. In addition to the technical articles, much publicity was given to the rate hearings of The Bell Telephone Company of Canada over the past year.

Bell's method of treating deferred income taxes in their accounts and in their rate base was the subject of considerable controversy in governmental and accounting circles. Since Bell Telephone is a regulated public utility, the circumstances of this particular case have little general applicability, but the issues that the Bell case raises are significant to general managers in all commercial and industrial firms where depreciation is a substantial element of operating expense. The accounting articles have outlined the alternative methods of handling the tax differential; this article will attempt to outline some of the financial implications resulting from the various treatments.

HISTORICAL BACKGROUND

From 1949 to 1954, the depreciation regulations of the Income Tax Act required that a company use the diminishing balance method of calculating depreciation in reporting net income for taxation purposes. The amount so calculated was called capital cost allowance. The rates used to calculate capital cost allowances were in most cases quite liberal when compared with the straight-line rate based upon the estimated useful life of the asset, although a company was not required to claim the full allowance, if it did not wish to do so. In order to qualify for the liberal allowances, however, a company was required to record the full amount of the capital cost allowance as depreciation expense in its records and financial statements. Thus in many cases, depreciation expense provisions would have nearly doubled in the first year if the company adopted the government rates, and reported profits would have been reduced accordingly.

For this reason, many companies did not take advantage of the tax saving resulting from the liberal allowances, presumably on the grounds that the harmful effects of reporting lower book profits would outweigh the benefits of retaining a large amount of cash in the company which otherwise would be paid to the government in income taxes. Thus one purpose behind the government's capital cost allowance scheme — to encourage rapid replacement of fixed assets and stimulate expenditure in capital equipment through rapid and early tax write-offs—was largely defeated.

As a result, in 1954, Income Tax Regulation 1100(4) was revoked, and the amendment permitted a company to claim the liberal capital cost allowances for tax purposes, even though these generous allowances were not recorded on the companies' books as depreciation charges. This existing regulation, while it answers perfectly well the criticisms of the original legislation, has brought with it other problems of income determination equally as serious as before.

THE EFFECT OF THE REGULATION

At first the amendment appeared to be a windfall for businessmen. For example, the cost of a ma-

Exhibit I

MACHINE COST — $1,000,000

CALCULATION OF TAX SAVING USING 10% STRAIGHT LINE BOOK DEPRECIATION AND 20% CAPITAL COST ALLOWANCE

	10% Straight Line Depreciation		*20% Capital Cost Allowance Claim*			
Year	Yearly Straight Line Charge (1)	Accumulated Depreciation (2)	Yearly Maximum Capital Cost Allowance Claimed (3)	Accumulated Capital Cost Allowance (4)	Tax Saving (50% of (3) - (1))	Accumulated Tax Saving
1	$100,000	$100,000	$200,000	$200,000	$50,000	$50,000
2	100,000	200,000	160,000	360,000	30,000	80,000
3	100,000	300,000	128,000	488,000	14,000	94,000
4	100,000	400,000	102,000	590,000	1,000	95,000
5	100,000	500,000	82,000	672,000	(9,000)	86,000
6	100,000	600,000	66,000	738,000	(17,000)	69,000
7	100,000	700,000	52,000	790,000	(24,000)	45,000
8	100,000	800,000	42,000	832,000	(29,000)	16,000
9	100,000	900,000	34,000	866,000	(33,000)	(17,000)
10	100,000	1,000,000	134,000(5)	1,000,000	17,000	....

(5) If the asset was replaced in the 10th year for $1,000,000 (ignoring inflation), the new capital cost base would be $1,134,000. The 20% allowance would then be $227,000 in Year 10. It is assumed that $134,000 of this amount applies to the old asset.

chine which previously was depreciated over 10 years on a straight-line basis was now able to be charged against taxable income in large amounts in the early years. Exhibit I shows that for machinery whose cost was $1 million, 60% of the cost of such machinery, or $590,000, could be written off against taxable income in the first four years of its life. With a tax rate of about 50%, this company would be able to retain about $95,000 more cash in the business during this four-year period than under the straight-line depreciation method. This money otherwise would have been paid to the government through higher taxes, since reported profits are higher in this example when straight-line depreciation rates are used.

Even though this $95,000 saving begins to be depleted in the fifth and subsequent years, the business still unquestionably benefits from claiming maximum capital cost allowances in the earlier years of an asset's existence since it has the use of those dollars immediately, rather than recouping small amounts over a 10-year period as before. If the company were to invest the tax saving of the first four years at a return of six percent, the compound interest on the tax saving would be approximately $14,000 at the beginning of the fifth year. It is not until the ninth year that this saving is entirely depleted and the company loses the benefit of the "interest-free loan". At this time the machine's useful life has just about elapsed. The cost of the replacement would be added to the capital cost base in the 10th year, starting the cycle of tax savings again. If we can picture a going concern with many such machines of varying ages which are constantly being replaced with newer models at ever-inflating prices, one can calculate that the capital cost allowance claim for the entire pool of assets could be equal to or greater than the straight line depreciation charge, for an indefinite period.[1] Thus for all practical business purposes, the tax saving becomes a "permanent" interest-free loan from the government in these circumstances.

1. For a complete discussion of this concept, see J. W. Crowe, "A Look at Depreciation and Income Taxes", *The Canadian Chartered Accountant,* Vol. 69, No. 1, July 1956.

Even though the compound interest that could be earned on this tax saving is a striking figure in itself, in practice the company would probably put the cash to work at a return much in excess of the 6% used in the above calculation. This involves a choice from among the many alternatives available to the company for investment of funds. In cases where circumstances warrant it, management may expand its investment in inventories, or enlarge its capacity by expanding the plant. In these cases the return on the investment of the excess cash will be the net profit earned as a result of the increased sales. In other cases the company may not use the extra cash for expansion, but to take advantage of cash discounts or merely to add to the bank balance to improve its liquid position.

In any case the government is offering all businesses an immediate tax reduction, and those companies that do not take advantage of the saving are paying more out to the government today than are their competitors who are seizing the opportunity to reduce their current income tax bill. It is difficult to determine exactly how many companies in Canada still claim less than maximum capital cost allowances when calculating income taxes, since most published annual reports do not indicate the method by which depreciation is calculated in the company's accounts. In exceptional circumstances, such as a year of heavy losses, common sense may dictate that the capital cost allowance claim be reduced, but in most circumstances it would be prudent financial policy to claim the maximum allowance, regardless of the depreciation expense recorded in the company's statements.

The question is raised as to the wisdom of claiming the tax reduction now when there is a chance that corporation income tax rates may be increased in the future. If rates do go up, the tax saving would be greater if the claim for maximum capital cost allowance was deferred to those years of higher taxes. To resolve this issue, of course, one must decide first of

Exhibit II

ALTERNATIVE METHODS OF REPORTING NET EARNINGS

FIRST YEAR

	Method 1 Straight line Depreciation in books and for tax purposes	*Method 2* Maximum Capital cost allowances in books and for tax purposes	*Method 3* Separate methods – establishing an allowance for the tax saving	*Method 4* Separate methods – treating the tax saving as reduction in current expense
Earnings before depreciation and Income Taxes	$300,000	$300,000	$300,000	$300,000
Depreciation expense	100,000	200,000	100,000	100,000
Earnings before income Taxes	200,000	100,000	200,000	200,000
Income tax expense at 50% Currently payable	100,000	50,000	50,000	50,000
Deferred to future years			50,000	
			100,000	
Net earnings reported in published financial statements	$100,000	$ 50,000	$100,000	$150,000
Reported Earnings per share (assume 100,000 shares)	$1.00	$.50	$1.00	$1.50
Cash flow	$200,000	$250,000	$250,000	$250,000

all if tax rates will increase, secondly by how much and thirdly, when the increase will take place. This increase in tax saving in the future must then be compared with the income that could be earned as a result of having the use of the present tax saving immediately. Each individual will no doubt use his own judgment in predicting government action and hence resolve this question accordingly.

THE PROBLEMS

It is at the point at which the company elects to claim capital cost allowances for tax purposes on a basis different from that used in its own records where a serious problem in income determination may arise. Let us look at the previous example given in Exhibit I and assume that in year 1, the company has generated cash earnings of $300,000 before depreciation and income taxes.

The company can proceed to calculate net income in four distinct ways.

Method 1

Under the straight-line method, the company elects to record depreciation in its records in equal amounts over the useful life of the asset. It also elects to claim this same amount as capital cost allowance when computing its income tax. Since the capital cost allowance claimed for tax purposes is equal to the depreciation recorded in the company's records, the net income reported in the financial statements will be the same as that reported to the tax department. Hence, the calculated current income tax expense will be the same in both company statements and tax report.

In the example in Exhibit II, Method 1 produces after-tax earnings of $100,000 ($1.00 per share) and a cash flow of $200,000. A company using this method would have $50,000 less cash generated in the first year than a company using the third method. If these two companies were competitors and both required large amounts of cash for modernization or expansion, the company using Method 1 would be required to borrow or otherwise acquire $50,000 and pay the current interest or dividend rate, while its competitor was using this amount of money interest-free.

It is of interest to note that the Bell Telephone Company of Canada now uses Method 1 in reporting net income, as a result of the recent rate hearings. As noted earlier, the circumstances in this case are not generally applicable to other situations in which companies are operating in a competitive, as opposed to monopolistic, environment.

Method 2

Under this method, the company elects to record depreciation in its records under the diminishing-balance method using the maximum rates established by the Income Tax Regulations. As under Method 1, depreciation expense and capital cost allowance are the same amount, but in the first year recorded depreciation is twice the amount under Method 2 as it was under Method 1. As a result of this increased expense, the income taxes payable currently are lower, but the net profit reported to shareholders is also lower—in the above example it amounts to $50,000 ($0.50 per share).

Paradoxically, however, while showing the smallest amount of net earnings, this method generates the largest amount of cash from internal sources. This of course is accounted for by the lower tax payment and the fact that depreciation expense does not involve an outlay of cash. So, while earnings are reported to the shareholder as $0.50 per share, and dividends undoubtedly are based on this amount, the company has generated $2.50 per share in cash which can be reinvested in the business for modernization and expansion. This is the method of reporting currently used by the Steel Company of Canada Limited. In its 1957 Annual Report, Stelco explained its position as follows:

"In a period of rapid inflation, such as that of the past decade, the replacement of worn-out or obsolete capital assets requires much larger sums than can be provided through the medium of depreciation based on original cost. This creates serious financial problems for companies whose investments in long term fixed assets are very large. Because of this important consideration, your directors deemed it advisable to continue the policy of providing for depreciation and depletion substantially the amounts deductible under current tax regulations from the income of the company for the year."

Method 3

Under this method, the company records depreciation in its records under a straight-line or other systematic basis of allocation. When reporting taxable income, the company claims the maximum capital cost allowance in order to reduce the disbursement for current taxes. As opposed to the first two methods, this procedure involves reporting earnings before income taxes to the shareholders in one amount and to the income tax department in a smaller amount.

If a company uses Method 3, The Canadian Institute of Chartered Accountants recommends that the full amount of income tax (based on the higher earnings) be shown as a deduction in the profit and loss

statement even though this full amount will not be paid to the government currently. The Institute recommends that the amount of the deferred taxes be shown on the balance sheet as a deferred credit to be applied against higher taxes during the future years when capital cost allowances are less than depreciation recorded in the records.

As can be seen on Exhibit II, net income reported to shareholders under Method 3 is the same as that reported under Method 1, but the cash generated under Method 3 is $50,000 higher due to the smaller tax disbursement. Proponents of this method claim that net earnings are correctly reported, since costs and revenues are properly matched, even though some of these costs (part of the income tax expense) will not be disbursed in the immediate, or in some cases, foreseeable, future. Aluminium Limited has used this method of calculating net earnings since 1954, and at December 31, 1957 this company had in excess of $100,000,000 ($3.30 per share) shown as "Reserve for future income taxes" on their balance sheet.

Method 4

This method is similar to Method 3, except that the amount of income tax entered as an expense in calculating earnings is presumed to be only the amount of income tax which will currently be disbursed to the government. The tax reduction, as a result of the separate depreciation methods (in this case $50,000) is considered to be a real saving and net income is increased accordingly. The assumption here presumably is that the company will continue to replace its assets in the normal manner and that with consistent depreciation regulations, the deferred portion of income taxes will not become an expense nor need to be disbursed in the normal course of events.

The results on reported net earnings are striking. Earnings reported under Method 4 are $1.50 per share as compared with $0.50 per share under Method 2. The physical situation has not changed—the plant presumably will last the same length of time under both methods, and the cash generated is $2.50 per share in each case—but reported earnings are three times as high in the first year when reported under Method 4. Canadian Industries Limited, since 1956, has calculated net earnings by this method and explain their position as follows:

"Additional taxes will be payable in future years only if capital cost allowances are then less than the amount provided for normal depreciation; a study of the Company's past and projected expenditures for replacement, modernization and expansion indicates that this situation is unlikely to arise. In these circumstances, therefore, the continuation of the practice of reserving the reduction in taxes, having regard for the amount of $2,713,000 provided in the previous years, would result in the accumulation of a reserve for possible future taxes which would probably never be required."[2]

As can be seen, each of the above methods of treating depreciation and taxes has support in some Canadian companies. In each example quoted above, the auditors have approved the method of calculating income in the circumstances by signing an unqualified certificate on the financial statements. Therefore, at least some qualified accountants in public practice as well as some in industry have recognized at least four distinct ways in which to treat these two items in reporting net earnings to the shareholder.

CONSIDERATIONS FOR FINANCIAL MANAGEMENT

With such a variety of procedures available in reporting net income, each producing a different profit, which should the financial manager choose in calculating the profits which are reported to the public each year, and in some cases each quarter? To decide this issue, one must consider at least the following questions: In calculating income taxes, should the company claim the maximum allowance permitted? What is the purpose of depreciation, and therefore what is the amount of depreciation which should be recorded in company records? Is today's income tax expense the amount which is payable currently or does it include an amount which *may* need to be paid at an indeterminable future date? In any particular company's situation, is there likelihood that replacements and additions to depreciable fixed assets will delay the payment of deferred income taxes indefinitely? How are published earnings-per-share figures used in determining the market price of stock?

Maximum Allowance Permitted

As outlined earlier, the failure to reduce current income tax payments by claiming maximum capital cost allowances on tax returns means that a company is forfeiting the opportunity to generate large amounts of cash which may be used immediately or reinvested in the company at no interest cost. The company not using this source of cash for expansion is at a disadvantage with a competitor whose capital for expansion comes in part from this source.

Purpose of Depreciation

To accountants, the purpose of depreciation is to allocate the original cost of fixed assets over their

[2]Canadian Industries Limited, 1956 Annual Report.

estimated useful life in a systematic manner—i.e. to charge operations with the original number of dollars invested in the fixed asset. When the purchasing power of the dollar remains constant, the accountant's method of depreciation recoups enough dollars over the life of the asset to replace the machine or building at the end of its useful life. In an inflationary period such as the present, the price of a machine or plant when it required replacement could be 150% of its original cost. Many financial managers feel that it is the responsibility of the company to preserve the buying power of the shareholder's original investment by recouping through operations, sufficient dollars to *replace* the plant and equipment at the inflated prices. These managers claim that the customers, and not the shareholders, should be charged with the difference between original cost and replacement cost and that depreciation charges should be adjusted upwards accordingly. At least one large American corporation and one large national firm of certified public accountants in the United States have been pressing to have replacement depreciation recognized as an acceptable method. To date the accounting societies, the taxation authorities, and other regulatory bodies will not permit depreciation to be recorded on a replacement basis, but it will be interesting to follow the developments in this area.

As a compromise, the proponents of replacement depreciation have turned to accelerated depreciation calculated on the diminishing-balance method. Since it is based on original cost, this method is acceptable to accounting societies and regulating bodies in circumstances where it best measures the use of the facilities. Although this method does not recoup through operations more than original cost, the early years are charged with a larger share of the depreciation than later years. If the plant is continually replaced and expanded, the depreciation charges can indefinitely be higher under this method than under the straight-line basis.

As shown in Method 2 (Exhibit II), this method produces the smallest net income, since depreciation charges are high.

With smaller reported net earnings, the company may have less pressure from its shareholders for large dividend payments since dividends cannot exceed accumulated earnings, even though cash inflow is larger. Likewise, the company could point to small net earnings when it was seeking to justify a price increase, or in negotiating a wage increase with the union. On the other hand, the lower reported net earnings could work to the company's disadvantage by lowering the price of its stock when its shares are traded on the stock market, and thus increase the cost of future capital for the company. This will be discussed more completely under another heading.

If management decides that its responsibility is to preserve the buying power of the dollars invested by the company's shareholders, then adopting maximum capital cost allowances as depreciation in the statements will achieve this objective better than any of the four methods outlined in Exhibit II.

Income Tax Expense

The proponents of Method 3 and Method 4 differ only in their interpretation of the amount of income tax expense which should be recognized currently. Those adopting the third method admit that they are including, as an item of expense, an amount which does not have to be paid currently. They are also unable to specify the exact date on which this expense must be paid, since this will be influenced by changes in tax regulations, company policy regarding the rate of expansion and replacement of physical assets, and the condition of the economy in the future. They claim that the tax saving is a temporary deferment of a payment which must be made at some future date, and therefore current income is distorted unless the amount of tax deferred in the current year is shown as an expense of that year.

The basic arguments advanced in favour of the fourth method is that company policy is to continue to replace or expand its physical plant, and since this makes the future payment date of the tax-saving so uncertain, and the existence of a liability so remote, there is little justification for considering anything but the current tax payment as an expense. Should tax regulations regarding capital cost allowances change, the tax payment calculated under the new regulations would be entered as an expense of that year, without regard to events of prior or subsequent years.

These two opposing theories can produce quite different profits from the same situation and circumstances. Unfortunately, no amount of discussion will decide which theory is correct, since both are based somewhat upon a prediction of the long-term expansion of the economy. Of the two methods, the third is decidedly the more conservative as far as present profits are concerned, but present shareholders could make a case for claiming that this conservatism is unrealistic and that present profits are being unnecessarily reduced.

Future Replacements and Additions to Plant

The question of whether or not the tax saving is "permanent" usually evolves into a discussion of whether or not the pool of depreciable assets will

continue to be replaced or expanded. In the example in Exhibit 1, the capital cost allowance claimed was greater than straight-line depreciation up until the fifth year. This example was on the basis of one machine only. Assume that in the fifth year the company purchased a second machine of $1 million subject also to the 20% capital cost allowance. The capital cost allowance claim in the fifth year would be $82,000 for the first asset and $200,000 for the second. This totals $282,000, which is $82,000 more than depreciation calculated on a straight-line basis. Thus, by purchasing a new machine, the company has postponed repayment of the tax saving for another three or four years. If we further assume that the company has many hundreds of individual assets, some of which are being replaced each year, we can calculate that the tax saving would theoretically never be depleted so long as replacement is made on schedule. Actually, if the company expands operations by purchasing more machinery or other depreciable assets, and if replacement prices continue to rise as a result of inflation, the tax saving not only remains the same, but continues to increase each year.

Supporters of Method 4 claim that their company will replace its machinery as it wears out, and further, that over the long run their company will enlarge its capacity to meet the demands of an increasing population and larger market. Only if replacement expenditures are curtailed for a long period will the tax saving begin to be depleted, and since company policy does not include curtailment, this argument does not apply.

If the company abides by this policy in the future, there seem to be strong arguments favouring the recognition of the tax saving as a real reduction of current expenses. Even if the company is forced to curtail replacement expenditures for a temporary period in the future due to a recession or other business setback, it is probable that earnings of those periods would be distorted by losses and other causes as well as an adjustment of income tax expense. Provided that the method of reporting net profits is clearly set out for the shareholder, it is doubtful if he is being seriously misled by the higher net earnings figure which results under the fourth method.

As a consequence of reporting higher net earnings, the company may receive the opposite reactions from those which were outlined under Method 2. Since earnings are higher, the pressure from shareholders for higher dividends may be greater. On the other hand, the higher earnings per share may well cause the shares of the company to sell at a higher figure on the market and the cost of future capital through stock issues would be correspondingly reduced.

Reported Earnings per Share and Stock Prices

To a company which is considering future public financing, the question of how the market uses reported earnings per share in establishing the market price of the stock could influence its choice of accounting methods. If the price is influenced largely by reported earnings per share—i.e., the last figure on the statement of profit and loss divided by the number of outstanding shares — then a company could control the price of its stock to a certain extent by choosing the method of handling deferred depreciation which best suited its objectives. For example, a company could calculate profits under the fourth method to produce higher earnings, if it knew that it would require public financing in the near future. Once committed, however, the company would follow the elected method in future years.

Unfortunately, little is known as to what causes the price of stock to rise and fall. Certainly earnings and dividends play a large part in the equation, but to what extent do present earnings and future prospects influence the price? Finally, which figure is used to determine present earnings—the amounts reported by the company, or the amounts calculated by a shareholder who reviews depreciation policy, inventory policy, and so on, and calculates a net earnings figure based upon his own judgment? No doubt the sophisticated financial analyst who buys a large block of shares for an investment portfolio has examined the method of income determination used by the company, but which of the four methods of treating depreciation and income taxes would he choose as the proper one for a company such as Aluminium Limited to adopt? One cannot help but think that to a large measure, the earnings figure used by investors is the one that has been calculated and reported by the company in its published financial statements. If this is the case, a company could possibly raise the price of its stock by adopting the fourth method of reporting depreciation and taxes. If the stock sold at a higher price, the company could issue fewer shares in order to raise a given amount of capital in the future. By issuing fewer shares, the dilution of present shareholders' equity is less severe and the cost of the new capital to the company is lower.

CONCLUSION

It is not the purpose of this article to recommend one of the four methods of treating depreciation and taxes. One method is best suited for the long-range goals of each company, and in order to determine which one to adopt, the financial manager must consider at least those points brought out in this paper.

The question of treatment naturally does not arise where the amounts involved are immaterial. But when large amounts are involved, the company should in all fairness to the public state its policy towards the method and amount of depreciation used for book purposes as well as the method and amount claimed for income tax purposes. These amounts should be shown both for the current year and the total accumulated in previous years. The shareholder then has all the information necessary to evaluate the "true" profits of one company in relation to another.

HAS NATIONALIZATION SUCCEEDED?

Parliament laid upon the Boards of the nationalized industries obligations concerning operations, pricing and finance, and labour relations; in operation, efficiency (but expressed in various vague forms); in pricing and finance, the earning of revenue to meet outgoings "taking one year with another"; and in labour relations, the promotion of the welfare of employees. Efficiency of operation must be measured by financial as well as technical success, and so the operational obligation merges with the financial one. Over the field of nationalization as a whole this has not been met, for the Boards have fallen far short of covering their outgoings if depreciation is calculated on a replacement basis. Apart from the inadequacy of depreciation provisions, the failure to cover outgoings has been partly due to a mistaken belief that the national interest is served by low prices irrespective of cost or to postponement by Governments of proposed price increases, and partly to weakness in the control of costs.

The large capital expenditure of the public corporations has been met only to a minor extent from funds set aside by them. The major part, if not to be a cause of inflationary Government borrowing, has had to be raised from the savings of private individuals and firms or from the proceeds of taxation.

The nationalized industries have taken a more than proportionate share of the total funds used for investment in the economy but there is no conclusive test by which to determine whether this has been justified. The use of capital under free enterprise has to pass the test of the market; in the nationalized industries it has not or has not to the same extent, and decisions as to the amount to be used have been clouded by political considerations.

Nationalization has produced no discernible improvement in labour relations; it has indeed made them more difficult by destroying the worker's choice of employer within his industry, by bringing the Government into the ring in important cases of dispute and by disapointing the expectation of some workers that it would produce workers' control.

The Acts of nationalization set up by statutory bodies to represent consumers in their dealings with the Boards and to safeguard their interests. But to be effective any form of Council must limit and confuse the responsibility of the Boards for the management of their industries. It has been impossible therefore to make the Councils effective; for prices in which consumers are interested are determined by decisions on cost and investment, and it would be intolerable to the Boards to allow consumers to determine these.

The authors of the Acts of nationalization intended the Boards to be made accountable to the nation for the discharge of their obligations. But Parliament has not been able to devise methods for bringing them effectively to account; the Parliamentary system is unsuitable for the efficient control of industry, and accountability without control is meaningless.

All these points suggest that the record cannot yet be said to fulfil the hopes of outstanding progress and improvement held out by the nationalizers.

—*FBI Review*
London, England

A Student Looks at

COMPANY RECRUITING PRACTICES

Several issues back, the Quarterly published an article dealing with business views of university graduates. The following article attempts to turn the coin, and to tell business what students think of their recruiting practices.

LOUIS HOLLANDER

Much has been said in the last 10 years about the supply and demand of university graduates. The shortage of engineers and scientists has been most discussed, but controversy has arisen about other types of graduate as well, particularly in relation to their employment by industry or government. Most of the material has been written either by university professors concerned with the education of these graduates, or by employers with considerable experience in hiring of graduates. This article hopes to add a third point of view, one perhaps sometimes overlooked — that of the graduate himself.

Although both teachers and employers have had occasion to deal with a large number of graduates, the graduate generally has had to deal only with a particular one—himself. To overcome this limitation, the ideas of many students have been incorporated into this article, and by no means will all the points of view presented here be exclusively those of the author.

For a number of years during the early and middle 'fifties, the Canadian university student showed little concern at the possibility of not finding a job at the end of his studies. On the contrary, he was faced with the problem of choosing from among a number of golden opportunities offered him. It is perhaps not surprising that the student tended to become conceited and somewhat unrealistic in his hopes for the future. Also to be expected was the crushing disillusionment which often followed after one or two years of employment. But the year 1958 brought agonizing reappraisal to many a campus across the country. There were no longer three or four job offers for each student, and the opportunities which were available were presented in a very discriminate manner to the chosen ones of the graduating class. The recession apparently over, more job offers are expected in 1959. The student has been brought closer to reality by the situation in 1958. Even so, he still expects too much, and some employers still seem prepared to offer it to him.

CHANGING CONDITIONS

To bring these phenomena into perspective, one has only to compare the conditions in more recent years with those prevailing before the war and during the 'thirties. Generally speaking companies in the pre-war period did not visit the university campus to look for future employees; on the contrary, the university graduate had to seek out a firm and convince it that it should hire him. Furthermore, although the graduate might have done some self-appraisal and consequently might have some idea of what he wanted to do, more often this was determined for him by what employment happened to be available. Many counted themselves lucky to be manning gasoline pumps or running elevators.

This is in striking contrast to today, when company representatives swarm to the universities, and the schools find it necessary to hire full-time placement officers to coordinate and schedule these visits on a basis that will provide reasonable satisfaction to both the employer and the prospective employee. This function carried out by the universities is far too often taken for granted, and indeed can be a thankless task.

This remarkable change in recruiting practices has been brought about by several factors:

1. The prosperity of unprecedented proportions which has existed almost without interruption since World War II;
2. Technical developments during this period;
3. Increased specialization within businesses and the consequent need for a professional managerial group to administer the specialists.

COMPANY REQUIREMENTS

As a result of these pressures, employers put growing emphasis on recruitment programs, and lengthy period of intensive training awaited most new employees upon first joining a firm. The universities, for their part, extended their curricula to include not only more specialized courses, but courses in such fields as business administration.

The students themselves began to be swamped with attractive job offers upon graduation, and it did not take long for a few to take advantage of the situation. Some would accept a position with one company, and then with little apparent hesitation switch to another when a more lucrative opportunity was offered. Others talked with tremendous numbers of recruiting officers who visited the campus, and made a game of accepting expense-paid trips and dinners offered by these firms in their efforts to impress the students. Fortunately, these practices never became widespread, and through the efforts of the placement directors at the various universities their occurrence has greatly diminished. However, they are indicative of a situation where offers of employment were so frequent and given in such a manner as to give the graduate delusions of grandeur.

COMPLAINTS BY BUSINESS

As might be expected, these circumstances gave rise to complaints by businessmen about the attitude and ability of the newly-employed graduates. There is no doubt that many such complaints were quite justified, but they are perhaps more understandable when one considers the conditions which existed in the job market. Certainly the students were by no means free of guilt.

In the Winter 1956-57 issue of *The Business Quarterly,* Neil Armstrong, Placement Director at the School of Business Administration of the University of Western Ontario, wrote on "Business Views of University Graduates". In it Mr. Armstrong quoted some leaders of industry on the topic of employment of university graduates. He also examined some of the findings of a survey of 240 companies done by the National Industrial Conference Board.

Some of the business views on new graduates in general were as follows:

1. Many graduates appear to lack common sense in human relationships;
2. Too many students show little evidence of purpose or motivation in life;
3. Too many students show a lack of understanding of their responsibilities to the community which has made their education possible;
4. Students generally have little prior knowledge of the business world;
5. The job expectations of university graduates are unrealistic;
6. Too many graduates show lack of faith and loyalty to companies who are expending much effort to train and develop them.

While the validity of many of the above statements cannot be challenged, it would perhaps be more fruitful to attempt to identify the causes. A possible approach would be to consider some of these under the two headings used earlier in this article:

1. Changing Conditions.
2. Company Requirements.

The discussion on "changing conditions" earlier in this article dealt almost entirely with the conditions surrounding a recent graduate searching for a job. It would also be appropriate here to mention some of the other changes which were concerned largely with the graduate's home life and upbringing; both undoubtedly had a great influence. During this period, Canadian families had unprecedented incomes, which they spent in unprecedented amounts on articles which only a few years earlier were considered luxuries reserved for the very wealthy. Today's graduates grew up in this post-war atmosphere, and they accept this as the way of life because they have never known anything different.

This is not the place to go into the environment factor any more deeply. Suffice it to say that it is an important factor which depression-raised employers should constantly bear in mind. Is it any wonder that today's university student seems spoiled, that he often does not seem to have acquired any knowledge of the business world by graduation time, and furthermore, does not seem to have decided what career he intends to follow?

On the side of "Company Requirements", the drive which industry has launched in its attempt to recruit sufficient graduates has contributed signifi-

cantly to the unrealistic job expectations, and to the subsequent lack of both faith and loyalty to a company by the graduate. The consequently large increases in starting salaries for new graduates over recent years has certainly had its influence in complicating the situation. All too often a man who has been out of university for two or three years finds that the current year's crop of graduates is being offered a starting salary little different from his own, and that competition is willing to widen this difference substantially in recognizing his two or three years of experience if he is willing to change companies. This becomes particularly attractive if he has not progressed as quickly as was promised or implied by company recruiters when he was hired.

A FEW STUDENTS' VIEWS

At this point, let us examine some ideas and comments from students that are pertinent to the above discussion. The university student is notorious for voicing his opinions on almost any subject, but allowing for some unjustified griping, the registering of these views may be of considerable value in its own right.

1. *Stockpiling*—In good times certain companies seem to offer the world to graduates, and certainly give higher salaries than do others. Furthermore, there is little trouble in getting a job with them, regardless of the qualifications of the individual. A great many graduates may be hired initially by one company, but in later years the cutting down starts and only the very few that are considered to be good material are kept on; the remainder are released and find themselves starting out again to look for a job. Another result of this practice is that the apparent demand for graduates is largely inflated; subsequently in a year of bad business there are suddenly too many graduates for the demand, and it becomes much more difficult to find a satisfactory job.

2. *False Expectations*—These are too frequently the result of the above practice where graduates are hired in larger numbers than there are jobs suited to their particular training. However, there are other reasons as well. Recruiting officers, after all, are competing with each other for a particular graduate whom they would like to see working in their own organization. Quite reasonably, each one tries to outline to the student all the wonderful opportunities in his own company which are offered to an outstanding individual. He might even mention an employee who has succeeded in attaining a position of considerable prestige in a relatively short time. However, in view of the previously-mentioned fact that the student may not have had any realistic business experience, and that the interviewer may get somewhat too enthusiastic in his presentation, the graduate often is led to expect too much. The result is that the first few years with a company often prove disappointing, resulting in a change of jobs—a loss to both employer and graduate.

3. *Unqualified Interviewers*—Too often with the larger firms, the official sent to the universities to interview prospective graduates either is not in a position to know, or has not been properly briefed on, the openings that are available in the company. He thus is unable to give a very satisfying description of opportunities to the student. However, it is just this initial presentation which may later determine what company the graduate does join, as this first interview does leave a lingering impression of the organization, and in many cases is the only personal contact possible. The problem is often inherent in the personality of the interviewer himself, and in some cases he does not appear suited for the job. It is surprising how often unqualified people are sent to do interviewing on the campus.

4. *Irregular Demand*—This also can be the result of stockpiling of graduates in good times. But often it can be the result of poor planning within the company itself. What seems to happen is that for a few years the employers flock to the campus and create an urgent demand which cannot possibly be met. Then comes a year of recession. Suddenly these same companies find that they already have too many graduates on hand, and can think of no reasons why more should be hired. In such a year, a company may not visit a campus at all, or may make a token appearance in order to maintain contact with the placement office. The total demand for graduates is likely to be 15 to 25 percent of the level of the former years. One wonders how long-term the planning of such a company could be which operates in this way.

5. *Vagueness*—This problem is probably the most difficult to overcome. Although the graduate of 25 years ago had his career determined, within certain limits, by the jobs which were available, the graduate today is faced with a myriad of opportunities. This in a sense is a real blessing, but it also means that the graduate should go through an intensive process of self-appraisal, and that subsequently he must choose a job most suited to himself. It also underlines the importance to him of the description of the jobs available. Since in many cases he has had little experience in the particular field involved, the general terms used in the interview or company brochure may have little concrete significance to him. Also of importance to him are the

promotion and compensation policies of the company with respect to his possible position in five or 10 years. Unfortunately, many firms are not able to give him even the roughest of indications because the particular job has never been well defined, and because such policies have never been established.

CONCLUSION

The nature of company recruiting has changed significantly since World War II, in answer to changes in the manner of doing business and consequent changes in the quailfications required of the business man. Much has been written on the training given by firms in an effort to help their personnel develop these qualifications. Another consequence of these changes is the apparently inexhaustible demand of industry for more graduates from the universities.

The result is that the bewildered student finds himself in great demand. He is shown opportunities which are beyond his fondest hopes. Interviewers compete with each other for even mediocre graduates with some rather excessive promises, and using extravagant methods.

It is the author's belief that the situation is being gradually corrected as it becomes apparent that when senses of value become distorted, both employer and employee suffer. To do its part in correcting the situation, however, business must know the nature of the abuses and the point of view of the graduate. To present these has been the purpose of this article.

THE FALLACIES OF FORECASTING

If you're becoming impatient with all the ifs, ands, and buts that forecasters are attaching to their estimates of the prospects for the Canadian economy in the next 12 months, it's worth remembering that economists are in roughly the same position wtih business cycles that doctors are with cancer.

They can both diagnose a case of recession or inflation once it's far enough advanced; they can advise measures to limit the course of the disease and ease the suffering of the patient—but they can't offer a sure cure, and they don't know precisely what causes the ailment, though they have many notions of the pre-disposing conditions.

Under these circumstances, it is as unwise to panic when an economist points to symptoms of depression as it is to stampede when a committee of doctors declares that smoking leads to cancer — a statement that leaves many of us still contentedly puffing. On the other hand, it may be equally unwise to be totally reassured by bland statements to the contrary. Suspended judgment is probably the appropriate attitude in both cases.

In fact, no theory of the cause and cure of recessions commands unanimous support, though economists, circling round the problem have identified certain signs and portents that bear watching. How significant these portents are at any given moment is (almost) anyone's guess; the crystal ball in which they appear is clouded and will remain so until human beings become much more predictable beasts.

—*Financial Post*

James Duncan of Hydro

Continuing our series of business biographies, we present below the story of a business leader who started a second career after 60 — James Duncan, chairman of the sprawling Ontario Hydro-Electric Power Commission, and formerly head of Massey-Harris-Ferguson.

MARY ORDE

Few men retire from an outstanding business position at over 60 years of age, only to emerge from retirement a few months later and take on an even bigger job. Yet that is the pattern followed by Mr. James Stuart Duncan, C.M.G., LL.D., former president of Massey-Harris-Ferguson Ltd., now chairman of Ontario Hydro and one of Canada's foremost public personalities. At 65, Mr. Duncan heads the continent's leading power undertaking (assets $2¼ billion and revenue $197 million in 1957), is prominent in the moves to broaden Canada's trading position in imports and exports, and is a well-known figure both in North America and Europe for his outspoken "internationalism". In all of these fields he is well qualified for his high position.

Coming from a family of farm implement makers and distributors, he naturally took to a career with the Massey-Harris agricultural machinery firm. Progressing from general office to executive suite, he slipped equally naturally into the president's position, and finally left the organization after 46 years' service.

After one of the briefest retirements on record, he was persuaded by the Ontario Government to take on the chairmanship of the province's hydro-electric power commission. He is now busier than ever, and there is no second retirement in sight.

During these years as a traveller and salesman in many countries, he acquired, together with a useful fluency in languages, the open-mindedness about international trade which has marked many of his public statements. Accordingly he was a natural choice as organizer of the Canadian trade mission which visited Britain in November 1957.

A spare, quick-moving figure, Mr. Duncan bears no traces in speech of either his Scottish parentage, European birth or Canadian adoption.* Born in France in 1893, where his father had an agricultural machinery distributing agency, he was brought up there and went to school in Paris. This background was responsible for his fluency in French—and also for his familiarity with the life of an emigrant.

During his boyhood, the family was visited yearly by the late Sir Lyman Melvin Jones, then president of the Massey-Harris organization in Canada, who toured Europe visiting his firm's agents. "Sir Lyman was always reminding my father that Canada was the finest place for a young man," says Mr. Duncan, "and that I should be sent out there when I left school."

So the 16-year-old James went for a year to the Berlin office of Massey-Harris, where he picked up another language—German. At 17, now used to living away from home, James sailed for Canada, and arrived in Toronto in 1911. Sir Lyman Melvin Jones put him to work in the Massey-Harris factory, and he began to learn the manufacturing end of the machinery business. "I was paid $9 for a 59-hour week in those days," Mr. Duncan explains, "but of course they were different in value from today's dollars." He lived in a boarding house in Strachan Avenue, near the factory, and was a frequent week-end guest at the Jones' home.

The lack of a university education did not hinder his progress with the firm. "We had only one fully-qualified engineer on the staff here in Toronto then," he says. "A degree did not matter so much as it does nowadays, and I was very ambitious." He was transferred back to France, and began to move towards the sales side of the business which was to be his main career with Massey-Harris.

Then came the 1914-18 war, during which Mr. Duncan served with the Imperial Forces, joining up as a private and progressing through the ranks to become a captain. After the war he rejoined the firm and by 1929 was manager of Massey-Harris operations in France, Belgium and North Africa. Aged about 27, he was appointed European general manager, and his life became a series of tours around his large territory.

The company experienced severe difficulties in the Argentine during the depression years, and Mr. Duncan was sent there to help straighten matters out. This led to his appointment as Argentine general manager in 1933, but within two years he was recalled to head office in Toronto to take on executive responsibility. In quick succession he became General Sales Manager, Assistant General Manager and General Manager.

He met his wife, a well-known Spanish actress, on a ship travelling from the Argentine to Spain, and perfected his Spanish listening to her performances in the theatres of Buenos Aires. They were married in New York in 1936, and his wife gave up her career and a Hollywood contract—"she says she has never regretted it, either," says Mr. Duncan smilingly.

When the Second World War began, he came close to starting a new life in politics. He was appointed a "dollar-a-year-man", as deputy minister for air in 1940, and assumed responsibility for putting the Commonwealth Air Training Plan on a sound basis. An invitation to join the Federal Cabinet as Minister for Air followed, but Mr. Duncan persuaded the Prime Minister to let him return to Massey-Harris in 1941. As president, he then took up the urgent job of organizing the firm for its massive war production effort.

Of other wartime activities, perhaps the most outstanding was his chairmanship of the food committee of UNRRA in Washington and of the combined agricultural and food processing machinery committee, also in Washington, in 1944. He possesses tributes from foreign nations which include the French Legion of Honour, the Cross of Lorraine and the King Haakon VII of Norway Cross of Liberation. He was also created C.M.G. in 1949 and an LL.D. was conferred by Dartmouth College, New Hampshire, in 1957.

He remained with Massey-Ferguson Ltd., as it is now known, until his retirement in 1956, having become chairman of the board in 1949. When he took over executive responsibility in 1936, the firm's sales were under $12 million and losses were severe. In the next 20 years it became the second largest farm implement business in the world, and probably the best-known Canadian industrial organization. Its 1955 volume reached $368 million.

After a few months' rest and recovery of his health, Mr. Duncan decided to indulge in more travel—one of his favourite pastimes in spite of a lifetime spent travelling—and see some of the Far East countries he had still not visited. But the retirement was short-lived. Approached to become chairman of Ontrio Hydro, Mr. Duncan accepted, and began his "second career". He felt he could not ignore the challenge of a public undertaking which had made industrial history in its 50 years' existence, was a dominant factor in the economic life of the province, and was clearly destined for even bigger achievements. "I hardly knew the difference between a kilowatt and an atom," he says of his appointment, "but the organization and direction of such an enterprise appealed to me."

Of Ontario Hydro's two largest remaining power resources for development, the chairman is naturally most excited about the St. Lawrence Seaway project. As a human endeavour, and as a piece of international co-operation on the highest level, he feels that its implications are tremendous. Its fulfilment next year will give more power to his convictions that "internationalism" in all fields, rather than a narrow concentration on national interests, is essential for world progress. Mr. Duncan hopes to see the Queen and President Eisenhower unveil next summer a black granite marker in Cornwall, exactly straddling the international boundary between Canada and the U.S., to be inscribed with words embodying this conviction: "This stone bears witness to the common purpose of two nations whose frontiers are the frontiers of friendship, whose ways are the way of freedom and whose works are the works of peace."

More than 10 years ago, his views on the value of closer trade between Canada and Great Britain were well known in both countries. Accordingly he was asked by the then chairman of the British Dollar Exports Council to form a committee of interested Canadian businessmen who could act as a liaison with the British organization. The Dollar-Sterling Trade Council was formed in 1949, with Mr. Duncan as chairman. He still holds this post, and was in an invaluable position when moves were under way some months ago to send a Canadian trade mission to Britain. He became organizer and deputy chairman of the mission. Mr. Duncan is careful to emphasize that the declared purpose of the mission—of helping to correct Canada's trade balance—had its roots not in emotional ties but in hard economic facts. Both before and since, he has been outspoken—not the least to American audiences—about Canada's need for more balanced trade, even if this appears superficially to be aimed mainly at U.S. industry.

Forthrightness in stating his views is one of his strongest characteristics. The present-day executive, Mr. Duncan is convinced, must take a stand and declare himself on certain issues if he is to become a leader in the community and his country. Such leadership is a right and a duty if he is intent upon building up both his own business and Canada. He should also be interested in education, in training, in scientific developments and in social work.

In all these directions Mr. Duncan practices what he preaches. He has a strong interest in education. A governor of the University of Toronto, he resigned only recently after 12 years as chairman of the board of governors of St. Andrew's College, Aurora. "I was rather surprised that they asked me to take on that job, since I had never even been to a school in this continent," he comments, "but I accepted anyway." He is also vice-chairman of the Royal Conservatory of Music of Toronto, a board member of the Industrial Foundation on Education, chairman of the National Advisory Committee on the Advancement of Education, a director of Atomic Energy of Canada Ltd., and a governor of the Victorian Order of Nurses. A believer in the importance of a strong and influential Commonwealth as a constructive world influence, he organized the Australian-Canadian Association in 1955 and became its chairman. Among his past activities have been directorships of many leading Canadian companies, the International Chamber of Commerce, Montreal and Toronto Boards of Trade, and the United Welfare Chest in Toronto. A tribute to his personality and achievements came from the National Sales Executives organization of the U.S. with his selection as "Canadian Businessman of the Year" in June, 1956.

But perhaps the most distinguishing of his business characteristics, and the one for which he is best known among his own colleagues as well as in other national and international circles, is his almost passionate devotion to hard work. In a recent broadcast he admitted that he had always "worshipped at the throne of hard work" and declared that he "did not believe in shorter hours of work than those now existing for any classes in our society—and that goes for senior executives too." Canada, he affirms, still has a long way to go to establish itself in the markets of the world and this cannot be done by more and more leisure and less and less work.

This conviction is largely responsible for the fact that he has few hobbies — and that real retirement holds little attraction for him. "I have a better time working and keeping active," sums up his attitude towards leisure. But when his numerous business and outside activities allow, he enjoys entertaining, reading biographies, history and the occasional novel, and just being with the family. He has two daughters, both of whom attended the University of Toronto, and a son of 13. The eldest daughter, aged 21, is in Paris taking a course at the Sorbonne and his youngest daughter is finishing her fourth year at the University of Toronto and expects to go to Oxford next year. All three children, in keeping with their parents' European background, have travelled on the Continent and speak several languages. For holidays Mr. Duncan and his wife have a house in Bermuda, "but we find we tend to go back to Europe for vacations," he explains. When he decides to retire finally he still wants to travel in the Far East and perhaps to settle in Europe once more. "Canada is too young and too fast-moving for a restful retirement," he comments. But both the travel programme and the possible renewed residence in Europe will probably not be fulfilled for some time to come. "The life of a busy executive is too interesting, too exciting to give it up while one has the health and vigour to carry on," says Mr. Duncan.

CANADA'S PRIME GOAL

. . . If I were assigned the task of prescribing the appropriate program for the next 10 years in Canada, I would set as the prime goal the maintenance of confidence. Keep Canada the sort of place that people and money want to come to, that they have confidence in, and Canadians won't have many worries about economic progress.

—J. R. White
Imperial Oil Review

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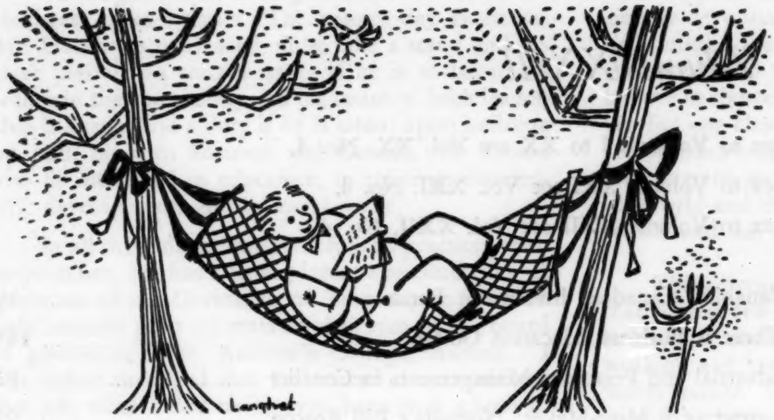

BOOKS FOR THE BUSINESSMAN

THE WRITINGS OF PETER DRUCKER

With the publication of *Landmarks of Tomorrow*, Peter F. Drucker has completed his seventh book (excluding his co-authorship of *Germany the Last Four Years* and his several books written in German). Here is an author that defies classification. History, philosophy, sociology, management, economics, education — all appear to be grist for his mill. *Landmarks of Tomorrow,* however, represents a return to an earlier approach in his writings. In much the same manner that he analyzed the effects of national socialism in Germany during the thirties in *The End of Economic Man*, or considered the framework of an industrial society in *The Future of Industrial Man*, he discusses the basics of our society today. It can perhaps be said that in his latest book Drucker offers nothing new. But its contribution lies in the fact that it picks up many previously isolated thoughts and weaves them into a pattern or a description of the society in which we live. It is the relationship of the fragments of thought within our society and the degree to which they throw light on the whole that is of importance to Drucker.

He divides *Landmarks of Tomorrow* into three fundamental parts; perhaps to list these will give the reader some insight into the content of the book.

The first is a discussion of what Drucker terms the "post Cartesian or post modern" world in which we now live. He explains that there has been "a shift from the Cartesian universe of mechanical cause to the new universe of pattern, purpose and process". In this part, he considers the importance of innovation, risk and responsibility.

The second part can perhaps be best described as the rise of an "Educated Society". The problems of education, economic development, and government come before his penetrating analysis.

Finally, he concludes with some thoughts on the spiritual or metaphysical realities of this new world. The problems of knowledge and power to a degree inconceivable in any other era are considered in relationship to the future of man himself.

This is not a light weight book, nor will it help a businessman in the current operations of his firm. However it deals with a vital topic and one which is of paramount importance to our society in which the businessman plays a leading role.

As mentioned earlier, *Landmarks of Tomorrow* represents a return to an earlier trend of thought for the author. As in his earlier books it deals more with

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BOOKS BY

PETER F. DRUCKER

1. The End of Economic Man – 1939
2. The Future of Industrial Man – 1942
3. Concept of the Corporation – 1946
4. The New Society – 1949
5. The Practice of Management – 1954
6. America's Next Twenty Years – 1955
7. Landmarks of Tomorrow – 1957

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political science or sociology than with economics or business. It takes a very broad approach where he considers the realm of politics, society, economic institutions, the interrelationship of these, and their ultimate effect on the individual. In some cases the author deals with the philosophical. Such is the general content of *The End of Economic Man*, *The Future of Industrial Man* and *The New Society.*

Of more specific interest to the businessman is the second phase of the author's writing, a phase which, generally speaking, deals with the economic institutions in our industrial society. The author discusses the role, the responsibilities, and the overall effect of business on the individual within his society. He considers the managerial aspects of a corporation, the responsibility of management, and the tools and practices employed by management to operate business. There is no clear break between his discussion of our society and the practices of management. This is probably because the author never loses sight of the woods, even when primarily concerned with the trees. Unlike many who have written in the field, he does not attempt to segregate or divorce business from the society to which it belongs. He does not try to reduce it to the confining limitations of the economic, and thus provide a more specific if less valid analysis of business operations.

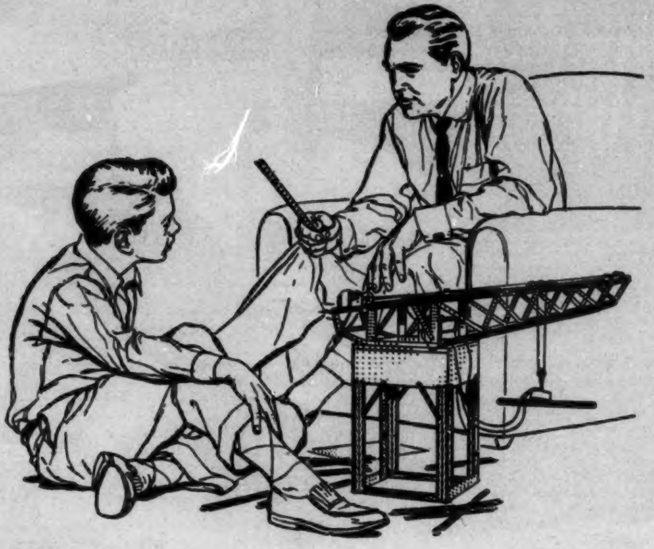
For an economist, the reader will note a decided lack of figures and technical theories in Drucker's writing. For the reader who is looking for statistical evidence or conclusive answers to the problems of management, little is offered. Liberal use is made of evidence, and theories of other men in the business field. Primarily, however, the author is writing from his own experience, and there is little doubt that he is well qualified to do so. By formal education the author is an economist and by profession he is a correspondent, a teacher of history, philosophy and business management, and a consultant to a number of large American corporations including General Motors, A. T. & T., I. B. M. and Sears-Roebuck. The author, however, has another qualification. As a European, trained in the ways of European business, he is less apt to be complacent about things which we consider to be commonplace. Factors which we take for granted he does not overlook, but is able to compare and contrast the new and the old methods, as typified by the new and the old worlds. It is difficult to define such, as a qualification, but this background appears to give the author a greater insight than many others. Little else can be said about Drucker's investigation or knowledge of the subject on which he writes. His education, experience, and background provide the investigation, and they must in the final analysis he used to weigh the validity of his statements.

Aside from the author's basic considerations of society at large and its effects on the individual as outlined earlier, his purpose in writing is perhaps best described in this quotation from *The Practice of Management*: "We have available to-day the knowledge and experience needed for successful practice of management. But there is, perhaps, no field of human endeavour where the always tremendous gap between the knowledge and performance of the leaders, and the knowledge and performance of the average is wider or more intractable. This book does not exclude from its aims the advancement of the frontier of knowledge; it hopes, indeed, to make some contribution to it. But its first aim is to narrow the gap between what can be done and what is being done, between the leaders in management; and the average." This is perhaps the best description of Drucker's intention and aim in all his books—to enlarge the field of understanding, if not always knowledge itself. In his more business-oriented books he draws heavily on the experience and findings of the leaders in American industry and includes a considerable number of short case examples from large corporations. Drucker explains many managerial theories and practices with which he is not in complete agreement although in some instances he cannot offer a better substitute. This he freely admits, and in some cases states the advantages of using such theories providing the weaknesses are fully recognized.

Many of Drucker's statements, such as "The automatic factory is the end product rather than the beginning of automation"; or "The sole aim of a business enterprise is to create a customer", are stimulating and thought-provoking. They force the reader to think in terms of the whole business enterprise and its place in society, rather than in terms of a functional or traditional expert who is concerned only with his immediate environment.

The Practice of Management is likely to lead many traditional economists the world over to re-examine their theories and businessmen to restudy their roles in the "twentieth-century production revolution".

America's Next Twenty Years is the author's prediction of events which will occur in the near future. Drucker does not cast himself in the role of a seer, but instead uses current and historical data to formulate his hypotheses. Similar to mass production, automation will create increased productivity as well as upgrading the worker's skill. "As a machine, man is poorly designed and with the advent of automation he shall be doing the task for which he is best suited, that is, to think, to innovate, and to design". In essence man shall become master of machinery.



Books for Businessmen — cont.

One need only look at the birth rate of the depressed thirties, war-torn forties, and the prosperous fifties to predict what the future labour force will be. The birth rate, coupled with the increased college enrollment, and the social and legal restrictions regarding child labour and compulsory retirement, give promise of a labour shortage. Drucker aptly sums this up with a paradox, "There will be more people, hence more jobs, but fewer people to fill these jobs."

The worker, through the investment of his pension in trust funds, is becoming the new owner of industry. Drucker poses the questions, what will be the effect of this new relationship? Will the financial mind (the manager of the trust funds) control the destiny of business?

The social and economic implications of automation, the pending labour shortage, and the fiduciary investor are, among other factors, prevalent in the author's thinking.

The *Concept of the Corporation* is primarily a study of General Motors. In it the author explains some of the managerial and administrative practices used by that company. It is his belief that many of these pactices could be used by other corporations to good effect.

It is difficult to recommend one of Drucker's books over another. In their own light, all make excellent reading. To force a choice, however, it is the reviewer's opinion that *The Practice of Management* and *Landmarks of Tomorrow* offer the best reading to the businessman today. The former is chosen because it is more directly involved with business and discusses many of the current tools employed by management. The latter is selected because it is different. It provides a challenge to traditional ways of thinking, and broadens one's scope of interest by making one conscious of the dynamic nature of the world around us.

In all of Drucker's books, the reader will undoubtedly find cause to argue with some of his statements and disagree with some conclusions. But one cannot remain uninterested or unaffected. This is perhaps best described by H. N. Brailsford in his introduction to *The End of Economic Man* where he states, "I will resist the egoism that might tempt me to discuss various matters about which I differ from the author. Enough that his opinions, even when I reject them, were for me, as they will be for his readers, always stimulating. He compelled me, at least, to revise and restate my own."

J. B. Pearson,
Instructor in Business Administration,
University of Western Ontario

Ottawa Newsletter—cont.

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membership of our House of Commons now includes perhaps a record 86 M.P.'s who have been actively engaged in commerce or industry at the white-collar level. One of these has, measured by that dollar-and-cent yardstick, been considerably more successful in his pre-parliamentary career than Mr. C. D. Howe.

Can such a successful businessman make a contribution in Ottawa?

I feel that the appreciation of politicians for the need in government for commerce's administrative capacity, courage and farsightedness, now lags far behind the fact. I would assess the accepted need for business brains as dollar-a-year men in wartime as at least matched by the need for similar capabilities in cold war time; especially when, as Prime Minister Diefenbaker has said, the gravest threat which we face is the economic challenge of the communist world.

But let me again quote what Trade Minister Churchill said to me on this subject.

"Businessmen can make an invaluable contribution in the picture of government, on such bodies as boards and advisory councils, and as directors of crown corporations such as the Bank of Canada and Canadian National Railways."

Mr. Churchill reflects there the true politician's distrust and indeed distaste for the memory of a businessman's distaste for our parliamentary methods.

Today, in an age and in a country where inherited wealth is very seldom sufficient to permit a brilliant mind to devote itself to public life, the highest financial rewards are offered in the purple of commerce. That flame attracts all moths. Yet with government increasingly interested in commerce, there must be a place in our country's biggest business for some of those who, in a quarter-century of experience, have attained success in individual businesses.

This is a situation which today remains equally unrecognized by both sides to this possible and desirable partnership.

THE WORKER VIEWS HIS UNION

by Joel Seidman, Jack London, Bernard Karsh and Daisy L. Tagliacozzo. The University of Toronto Press, Toronto, 1958. 300 pp., $5.75.

Here is another study of the attitudes of union members reflecting the growing interest in the "grass roots" of the labour movement—the local union. The emergence of labour unions as a powerful political and economic force has focused new attention upon their ability to maintain democracy at all levels and yet remain in a strong bargaining position with management.

In order to gain more understanding of the problems facing the labour movement and its members, the authors, better known as the Seidman Group, designed and conducted a comparative study of worker attitudes. This was qualitative rather than quantitative research. The authors studied in depth six mid-western locals — plumbers, coal miners, steel workers, metal workers, knitting mill workers, and telephone workers. They were looking for patterns rather than statistics and have drawn conclusions which they feel have validity for the broad categories of organized labour. They built their interviews around the particular problems of each group of workers and interpreted their results against the total socio-economic background of the workers' jobs and lives. In the final chapters, the authors comment on some of the critical problems and policies which are facing the American labour movement and attempt to interpret these problems in light of their research findings.

In discussing democracy in trade unions, the authors go beyond the

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Canadian Taxation and the Businessman

K. W. LEMON, F.C.A.

The new Federal Estate Tax Act which was referred to briefly in an earlier article in this series has now been proclaimed and is applicable to the estates of persons who die on or after January 1, 1959. The new statute contains provisions which differ in many respects from those of the predecessor Succession Duty Act and which consequently may require changes in existing estate plans and wills. Some of the more important points which Canadian taxpayers should consider in the light of the new law are set out below.

WILL CHANGES

The Estate Tax Act levies the tax against the estate rather than against individual beneficiaries as was the case previously. Accordingly, wills should be reviewed to be sure that this change does not materially alter the intended distribution of the estate. Where required, specific provision can be made in a will to ensure that the tax is charged in accordance with the wishes of the testator. In such cases, however, recognition should be given to the fact that the Ontario and Quebec Succession Duty Acts still levy duty directly against the beneficiaries.

LIFE INSURANCE

The Estates Tax Act deals with life insurance proceeds in an entirely different manner from that which applied under the former law.

It provides that insurance owned by a corporation on the life of its controlling shareholders will be included directly in the estate of the controlling shareholder to the extent that the proceeds exceed the business income of the company (before taxes) for the five years prior to death. It should be noted that the allowable deduction of five years' income refers only to business income and that no exemption is permitted in respect of investment income. As a result of this provision it will be appropriate to give consideration to the disposition of insurance held by personal corporations or other investment companies on the lives of controlling shareholders. In many such cases the position of the controlling shareholder could be improved by the assignment of the life insurance to his intended beneficiaries or by its transfer to an operating company. Even the assignment of the policy to the controlling shareholder himself would improve the situation by making the proceeds freely available to his estate although no reduction in taxes would result.

In the case of an operating company it may also be desirable to assign insurance carried on the life of a controlling shareholder in cases where the face value of the policy is in excess of average earnings for five years.

CREDITS FOR PROVINCIAL DUTY

The Estate Tax Act allows a credit of 50% of the federal tax in respect of property situated in the Provinces of Ontario and Quebec and property other than real estate situated outside Canada and bequeathed by a resident of either of these two provinces to another resident of the same province. This credit is intended to compensate Ontario and Quebec residents for the provincial succession duty to which they are subject but which does not apply to residents of other provinces.

This credit is applicable to all property deemed by the provisions of the federal statute to be situated in Ontario or Quebec whether or not the assets in question are actually subject to provincial duty. Because the credit is related thus to property deemed to be situated in the province rather than to the actual liability to provincial duty, conflicts will arise and in certain cases federal credit will not be allowed even although the property is actually subject to provincial duty.

As long as this situation is permitted to exist Canadian taxpayers would be well advised to review the portions of their estates which are subject to provincial duty to ensure that proper federal credits will be available to their estates.

Canadian Law and the Businessman

PETER V. V. BETTS

The struggle between American financier Cyrus Eaton and the taxation authorities of that country could be decided on a fundamental principle of company law having little or nothing to do with the sovereignty of Canada or that of Canadian companies. In view of the notoriety achieved by this latter aspect it might be well to pause for a moment to consider if such is necessarily involved at all.

The U.S. Government apparently alleges that a vast number of shares of Steep Rock Iron Mines Limited sold to Premium Iron Ores Limited at one cent a share were, in reality, a reward to Eaton and his associates in return for their efforts in getting Steep Rock off the ground. In support of its position the Government points out that the shares of Steep Rock later traded on the exchange for over $20.00 (a tidy profit), and that Eaton controls both companies. The claim of the U.S. Government is against (a) Premium, for tax on the profit it made in the transaction and (b) against Eaton, an American citizen, as principal shareholder of Premium to whom the profits of Premium for all practical purposes would accrue. Since Premium is a Canadian company incorporated under the laws of Ontario which claims to have no permanent establishment in the U.S., the first claim is fraught with international complications, but the second claim is probably of more interest to students of company law, predicated as it undoubtedly must be on the assertion that Eaton and Premium are so closely allied as to be for all practical purposes one and the same person. This is the process so alluringly described as "lifting the corporate veil", and perhaps deserves some explanation.

Fundamental to our law is the concept of the separate legal entity of the Company. In the eyes of the law, the Company is a separate legal person: the shareholder, any shareholder, even (for practical purposes) the *only* shareholder is not be identified with the Company. This doctrine was enshrined in our law by the House of Lords in 1897 in the celebrated case of Salomon v. Salomon where, to the layman, it must almost seem that Salomon sold his business to himself with strings attached, then when in financial difficulty foreclosed himself and thereby defeated his creditors.

The story runs something like this:

Salomon owned a prosperous little business and proposed to expand; for safety's sake he decided to achieve limited liability. So he incorporated Salomon Limited, to whom he sold the business at a somewhat inflated figure. Salomon Limited, having just come into the world, had no money, but now owned the property and gave Salomon a mortgage to secure the bulk of the purchase price as well as for all practical purposes the entire issue of common shares. Salomon had now managed to sell the business to himself (his company) with strings attached (the mortgage).

Salomon's suppliers were much impressed with the new sign on the premises "Salomon Limited", and in the general atmosphere of good times must have extended their credit beyond the point of prudence for they ultimately had to sue for their money. Salomon argued they had no claim against him. They dealt with Salomon Limited and, of course, had a claim against that Company and against its assets, but only such assets as might be left after satisfying his claim on his mortgage. Salomon and Salomon Limited were quite separate, he insisted, and to prove his point proceeded to foreclose his mortgage and get back, out of the reach of creditors, virtually all the assets of Salomon Limited. It was under these circumstances that the House of Lords was invited by the creditors to "lift the corporate veil" which separated Salomon from Salomon Limited, to identify the one with the other, and allow the creditors to follow the assets into the hands of Salomon himself. This the Court emphatically refused to do, and by and large, with some exceptions, the result has been followed in this country, although not always in the U.S.A.

What then if an American citizen were to create a Canadian company specifically to make a capital gain in Canada? Capital gains are taxable in the U.S.A. but not in Canada. When the American internal revenue department tries to collect from the American citizen, is it ignoring the corporate fiction? Will the American Courts allow it to do so? Is it invading Canadian sovereignty? Or would it be a purely American affair? These are some of the questions which may be answered when the Sixth Circuit U. S. Court of Appeals in Cincinnati renders its decision, expected later this month.

Books for Businessmen — cont.

usual definitions such as active participation in formulating policy and the responsiveness of leaders to the desires of the members.

> "The essential factor is the ability of the rank-and-file members to effect decisions, to replace leaders, and to change policies." (p.185)

It is interesting to note that this study substantiates the conclusions of Kornhauser[1] that the chances for success of a labour party are very slight. It also confirms the "dual allegiance" concept which came out of Father Purcell's research on packinghouse workers.[2]

The chapter on "Problems and Policies" comments upon many of the difficulties facing the union movement: the basic insecurity of the union as an institution because of its dependence upon problems existing in the management-union relationship; the question as to whether democratic ideology is compatible with mass unionism. The authors suggest the need for some plan of representative government, adding that the job of the shop steward could be revitalized by giving him an important place in the legislative structure of the larger locals. In summary, the authors state: "The single most important reform, if effective democracy is to exist within the national union, is to make it possible for opposition political machinery to exist and function without fear that union's disciplinary machinery might be used arbitrarily against them" (p.271).

Well documented and easily read, this is probably the most de-

[1]Arthur Kornhauser, Harold L. Sheppard and Albert J. Mayer. *"When Labor Votes: A Study of Auto Workers"* New York 16, University Books, Inc., 1956.

[2]Purcell, Theodore V., S. J. *"The Worker Speaks His Mind"* Cambridge 38, Harvard University Press.

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finitive and comprehensive study of a local union to date. It is recommended reading for all who are concerned with the democratic process in unionism. It will be helpful to those who wish to gain a further understanding of the behaviour of the rank-and-file union member, his leaders and his union.

J. J. Wettlaufer,
Associate Professor,
U.W.O.

READINGS IN CREDITS AND COLLECTIONS IN CANADA

(1958 Edition)

by the Canadian Credit Institute, The Ryerson Press, Toronto, 1958. 359 pp., $5.50.

Over 50 authors have contributed articles to the third revision of this reference handbook for credit men. The result is a complete outline and discussion of credit management and credit sales promotion in retail and wholesale firms; an adequate survey of the nature and role of credit in the Canadian economy; but an incomplete coverage of corporate credit policy in management and decisions.

The contributors point out that while average disposable income in Canada has doubled since 1939, consumer credit has risen from 8.9% to only 12.4% of disposable income. The implication is that the role of credit in Canada could become increasingly more important as Canadians sustain their higher standard of living. In this frame of reference, the authors discuss the activities and practices of the various credit granters in Canada. For each category of creditor, the authors outline their methods of operation, the type and purpose of the credit granted, and

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the type of customer using each credit source.

The chapters dealing with wholesale and retail credit management cover these subjects thoroughly. Topics such as the organization of credit department personnel, the contents and uses of a credit manual, the preparation and presentation of credit statistics and reports, and other credit department routines are written in great detail. These chapters should be helpful not only in setting up a new credit department but also in streamlining procedures in existing credit departments.

The authors also discuss the purposes of bank loans, finance company credit and credit insurance, although in less detail than the previous topics. But together with the chapters describing the role and operation of credit bureaus such as Dun & Bradstreet, this section includes much information to assist the credit man in financing and protecting his receivables.

Finally, the authors present an outline of the Canadian legislation that pertains to credits and collections. Summaries of the Acts dealing with bills of exchange, conditional sales contracts, bankruptcy, and forms of business enterprise, acquaint the reader with the content, but of course not the interpretation, of these Acts.

Credits and Collections in Canada is highly recommended for credit officers whose duty is to organize and operate a credit department and to carry out the existing credit and collection policies of a company. However, the book does not discuss topics such as the effects of under- or over-capacity on overall credit policy, and in my opinion its value to general management is somewhat limited.

Samuel A. Martin,
Instructor in Business
Administration, U.W.O.

SAMPLING OPINIONS: AN ANALYSIS OF SURVEY PROCEDURE

by Frederick F. Stephan and Philip J. McCarthy. John Wiley and Sons, New York, 1958. 451 pp., $12.00.

Sampling Opinions is devoted to current problems and practices in sampling people's opinions, needs and attitudes. As the authors point out, sampling has been the core to many important advances in social science theory in the past, and its call will become even more important in the future. Sampling has also become an important operational tool for businessmen, governmental leaders and other individuals attempting to analyze or forecast the actions of people.

In addition to the authors' own research into current sampling pracices, heavy emphasis has been placed on research completed by a Joint Committee on the Measurement of Opinion, Attitudes and Consumer Wants appointed by the National Research Council and the Social Science Research Council, both of the United States. This basis of research gives the publication added authority beyond the expert opinion of the authors themselves.

Sampling Opinions is divided into three basic parts. The first briefly explains the great variety of sampling methods presently in use and discusses the problems encountered in applying them. The second is an examination of several more recent research studies which were in some cases conducted by the authors and in others assembled from projects undertaken by other experts in the sampling field. This examination leads the reader to two important conclusions: First that generalizations about sampling procedures and findings are rarely valid, and secondly that there are no wholly-

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adequate methods for determining the accuracy of information resulting from sampling surveys. The final section is probably of the most practical interest to the average reader. The authors build on the more theoretical content of the first two chapters to illustrate the problems encountered in the design and operation of a sample.

Considering the book in total, there are two aspects worthy of particular notice. In the first two sections the reader is shown where more basic research is urgently needed if some of the weak links in the opinion sampling chain are to be strengthened. This is particularly stressed in the area of evaluating survey accuracy. The second aspect, and perhaps the most distinct feature of the book, is the almost complete lack of mathematical expressions or statistical treatise. Undoubtedly, this will be most welcome to those readers whose mathematics, like that of the writer, is somewhat rusty.

In conclusion, this is a book of prime interest to those individuals who have a more specific responsibility for planning or concluding opinion surveys, individuals such as marketing research directors for companies, research personnel in agencies, and consulting firms, etc. It is rather specialized for the average business executive, although it does make excellent reading on a subject which is designed to provide information on people's needs and wants, information of vital concern to most business enterprises.

J. B. Pearson,
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COMMUNICATION IN MANAGEMENT

The Theory and Practice of Administrative Communication

(Revised Edition)

by Charles E. Redfield. University of Chicago Press. 314 pp., $5.00.

Organizations, Redfield asserts, are created to get work done efficiently. Communication has an important role in the achievement of that objective. Administrative communication, primarily concerned with the overt, formal upward-downward-horizontal transmission of information, is not separable from such factors as organizational structure, office and plant layout, quality of supervision, and a host of other factors. Its activities comprise a unit with the organization and the people in it.

In prefacing this four-part book, the author—associate professor of administrative communication and management at the University of Pittsburgh—maintains that a good perspective on the subject can be attained by reading the first five chapters and chapters 10 and 11.

The first three chapters — Introduction; What Administrative Communication Deals With; Some Guiding Principles—set the stage for further consideration. The author suggests by way of measurement that all administrative communications should adhere to seven principles, namely clarity, consistency, adequacy, timing and timeliness, distribution, adaptability, and uniformity, interest and acceptance.

Chapter four deals with the order-giving process, of vital importance to any dynamic organization. It is suggested that the greatest single cause of inefficiency is poor downward and outward communication, of which orders are by far the most important segment. The inescapable

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objective of all orders is to secure compliance, which can be more confidently expected if all the technical aspects of an order are sound, and if all the accompanying social and psychological elements of acceptance are cultivated.

The proper balance between oral and written instructions forms the basis for chapter five, in considering what we wish to communicate, and to whom.

The next four chapters discuss the structural conception and implementation of individual messages and circulars, manuals, handbooks and employee publications. Of prime interest to experts in these areas, these chapters do, nevertheless, bring to light certain policy implications that are worthy of consideration by the generalist.

Administrative control, as discussed in the 10th chapter, is viewed as something more than transferring information from source to destination; it is also a process of feeding information back to the original source in a never-ending cycle. The essence of this control is action, which adjusts operations to predetermined standards, and its basis is information in the hands of managers. One prime problem in this regard is to secure the benefits of control without having people resent being controlled.

If administrative reporting (Chapter 11) is to have its maximum value, Redfield contends that the executive, as an order-giver, must tell his subordinates what kinds of reports he wants, but he must also stimulate and facilitate the upward flow by responding to his reporters. His efficiency depends to a great extent on the quantity and quality of the information flowing to him —the interpreter, the visualizer, the

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coordinator who must act, effectively, on the basis of this information.

The reviewer would suggest that Chapter 16 — The Conference Process — be added to the suggested basic list. It is most effective in illuminating some of the keys to effective horizontal communication, dealing with committees, training, and dissemination of information at the executive level.

Suggestion systems, interviewing practices and employee opinion polls are also discussed in this well-rounded and comprehensive book. At the end of each chapter the author has included a list of related reference books and articles. He relies freely on quotations from other experts.

Sections of this book are of practical value to everyone in a supervisory position from the top executive on down. Any manager who is interested in examining the equitability and feasibility of his present administrative channels of communication as integral tools of his efficiency, would find this book worthy of at least cursory examination.

R. E. Sproule,
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AN INTRODUCTION TO AUTOMATIC COMPUTERS

by Ned Chapin. D. Van Nostrand Company (Canada) Ltd., Princeton, New Jersey. 525 pp., $7.50.

The publication of this book will be welcomed by many people, since there is a lack of authoritative literature in the relatively new field of automatic computers. This text was not written for the scientist or

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mathematician, but for the executive who is considering the use of an automatic computer for some business application.

The author has approached the subject by starting with first things first, and has answered such questions as: What is an automatic computer? How does it function? What use has it in business applications? What are its limitations? What different types of equipment are there? and so on.

This is a survey text, and as such the author has traced the history of computer development and has explained briefly the mathematic and logic theory upon which an electronic computer operates. This latter part is an exposition of the Boolean algebra, which the non-technical reader will probably find difficult to understand. The reviewer did, at any rate.

There is a good deal of stress in the book on the amount of time involved in getting a computer into successful operation and of the total cost of a computer. Since many people apparently believe that the installation of a computer unit will create a human relations problem because many employees will be displaced, the author takes pains to point out that you don't order a computer one day and have it installed and operating a few days later. It takes months and often as long as a year in which to install and successfully "de-bug" the average computer. Hence, if employees in functions that will be done away with can't be trained to work in the computer department, there is usually more than adequate time to transfer them to other clerical posts. Since costs are extremely important in the decision as to whether or not to buy the computer, the author makes the point that the cost of the computer itself is just a part of the

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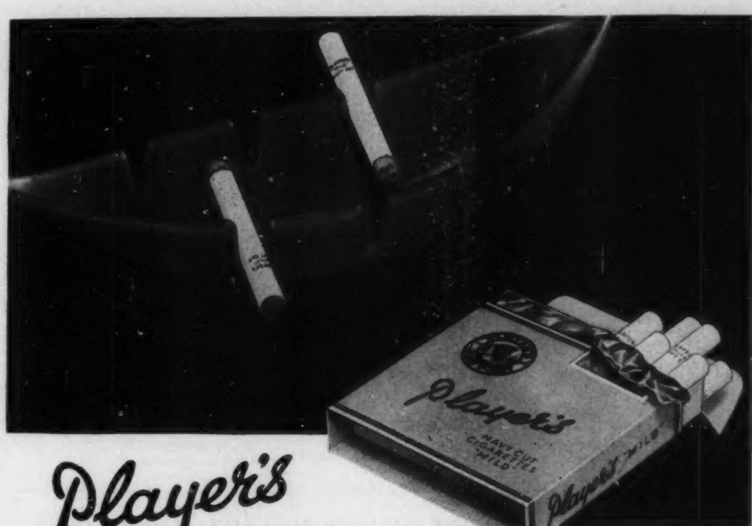

cost of a computer installation. Computers are sold like new cars, on a "stripped-down" basis. To make effective use of the computer the user will probably spend at least the price of the computer unit alone in optional equipment such as storage units, punched card input-output equipment, magnetic tape units, and so on. Another cost that may loom large is the installation cost, since quite often either a special building may have to be built to accommodate the computer and all its equipment, or extensive renovations will have to be made to existing premises.

The book also goes into great detail about the various pieces of equipment, their uses, and the system work that a computer necessitates. In addition there is an extensive appendix which contains information on many of the commercially - available computers, their costs, specifications and special characteristics as at the writing of this text.

This book should be of great help to every executive who is now or will be involved in making a managerial decision in the area of automatic computers. The reviewer must emphasize that this book is not designed, however, to tell businessmen what to do in specific situations, but to provide them with the background and framework upon which to approach the problem of whether or not a company can use an automatic computer profitably.

John Graham,
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